

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Pine County
Pine City, Minnesota**

Year Ended December 31, 2019

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice – conducts financial and legal compliance audits of local governments;

Government Information – collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations – provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

Tax Increment Financing – promotes compliance and accountability in local governments’ use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**Pine County
Pine City, Minnesota**

Year Ended December 31, 2019



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**PINE COUNTY
PINE CITY, MINNESOTA**

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PINE CITY, MINNESOTA**

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**PINE COUNTY
PINE CITY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2019

| Office | Name | Term Expires |
|------------------------------------|--------------------|--------------|
| Commissioners | | |
| 1st District | Stephen Hallan | 2022 |
| 2nd District | Joshua Mohr* | 2022 |
| 3rd District | Steve Chaffee | 2020 |
| 4th District | John Mikrot, Jr. | 2020 |
| 5th District | Matt Ludwig | 2022 |
| Officers | | |
| Elected | | |
| Attorney | Reese Frederickson | 2022 |
| Sheriff | Jeff Nelson | 2022 |
| Appointed | | |
| Administrator | David J. Minke | Indefinite |
| Assessor | Lorri Houtsma | Indefinite |
| Auditor-Treasurer | Kelly Schroeder | Indefinite |
| County Recorder | Lorri Houtsma | Indefinite |
| Registrar of Titles | Lorri Houtsma | Indefinite |
| Highway Engineer | Mark LeBrun | Indefinite |
| Health and Human Services Director | Rebecca Foss | Indefinite |
| Probation Director | Terry Fawcett | Indefinite |

*Chair 2019

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JULIE BLAHA
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pine County
Pine City, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2020, on our consideration of Pine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pine County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pine County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

August 3, 2020

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PINE COUNTY
PINE CITY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2019
(Unaudited)**

This section of the Pine County (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended December 31, 2019. The management's discussion and analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standard Board (GASB) Statement 34. Certain comparative information between the current year, 2019, and the prior year, 2018, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of Pine County exceed its liabilities and deferred inflows of resources on December 31, 2019, by \$89,452,354 (net position). The County-wide net position increased 5.6 percent in 2019 over the prior year.
- Overall governmental fund-level revenues totaled \$46,102,806 and were \$157,339 more than expenditures in 2019. Expenditures include \$1,583,851 of principal paid.
- The General Fund's fund balance increased \$294,736 from the prior year and of the total fund balance amount, \$4,421,510 was unassigned fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – required supplementary information, which includes the management's discussion and analysis (this section); the basic financial statements; supplementary information; and other supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are government-wide financial statements, which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements, which focus on individual parts of the County, reporting the County's operations in more detail than the government-wide statements.

- The governmental funds statements tell how basic services, such as general government, human services, and highways and streets, were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Government-Wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.

In the government-wide financial statements, the County's activities are shown in a single category:

- Governmental activities – The County's basic services are included here. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or “major” funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.

- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The County has two kinds of funds:

- **Governmental Funds** – The County’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on reconciliation statements that explain the relationship (or differences) between them.
- **Fiduciary Funds** – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County’s fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS

Net Position

Over time, net position serves as a useful indicator of the County’s financial position. Pine County’s total net position was \$89,452,354 on December 31, 2019, an increase of \$4,781,341 from the prior year.

**Table A-1
Change in Net Position**

| | Governmental Activities | |
|----------------------------------|-----------------------------|-----------------------------|
| | 2019 | 2018 |
| Assets | | |
| Current and other assets | \$ 22,635,561 | \$ 21,142,712 |
| Capital assets | 114,386,949 | 111,586,198 |
| Total Assets | <u>\$ 137,022,510</u> | <u>\$ 132,728,910</u> |
| Deferred Outflows of Resources | <u>\$ 5,554,182</u> | <u>\$ 8,204,658</u> |
| Liabilities | | |
| Current liabilities | \$ 4,785,320 | \$ 6,203,039 |
| Long-term liabilities | 41,734,089 | 41,063,381 |
| Total Liabilities | <u>\$ 46,519,409</u> | <u>\$ 47,266,420</u> |
| Deferred Inflows of Resources | <u>\$ 6,604,929</u> | <u>\$ 8,996,135</u> |
| Net Position | | |
| Net investment in capital assets | \$ 89,390,310 | \$ 84,913,975 |
| Restricted | 5,041,132 | 6,253,626 |
| Unrestricted | (4,979,088) | (6,496,588) |
| Total Net Position | <u><u>\$ 89,452,354</u></u> | <u><u>\$ 84,671,013</u></u> |

CHANGE IN NET POSITION

The government-wide total revenues were \$46,913,396 for the year ended December 31, 2019, (an increase of \$659,939). This is a 1.4 percent increase over the prior year. Property taxes, operating grants and contributions, and capital grants and contributions accounted for 76 percent of total revenue for the year (see Table A-2).

**Table A-2
Change in Net Position**

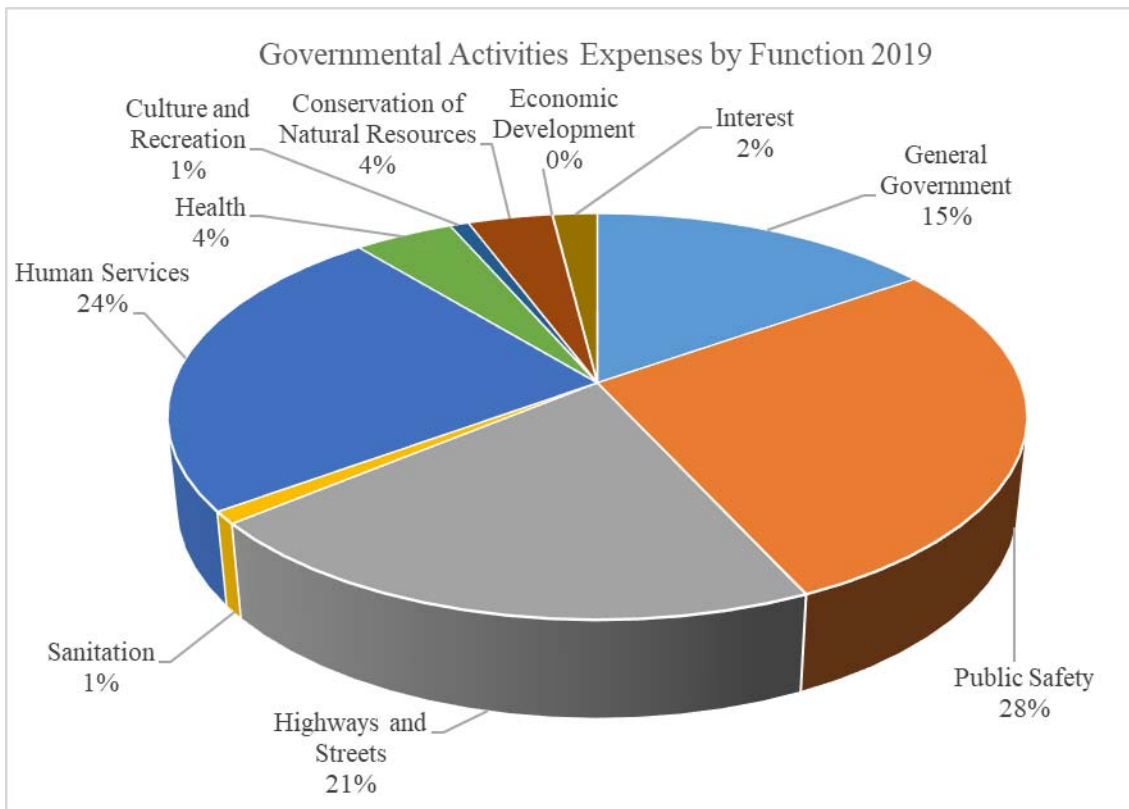
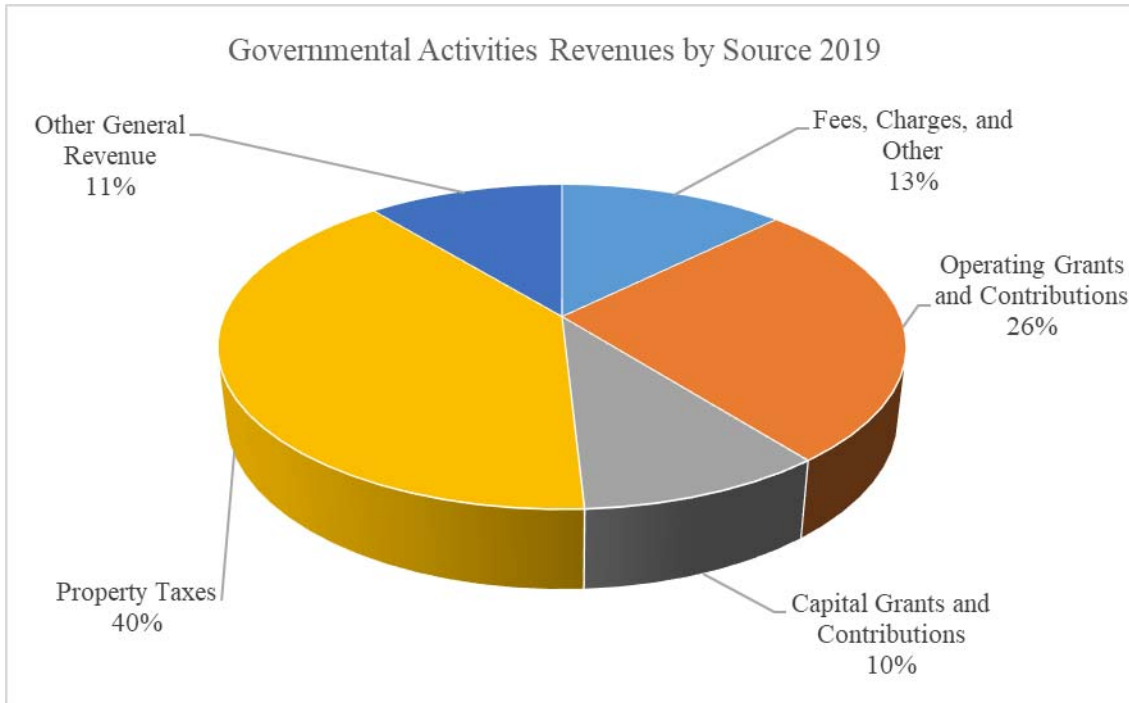
| | Governmental Activities | | Total Percent Change (%) |
|---|-------------------------|----------------------|-----------------------------|
| | 2019 | 2018 | |
| Revenues | | | |
| Program fees | | | |
| Fees, charges, fines, and other | \$ 5,945,342 | \$ 6,264,660 | (5.1) |
| Operating grants and contributions | 12,509,232 | 11,910,583 | 5.0 |
| Capital grants and contributions | 4,596,094 | 5,657,364 | (18.8) |
| General revenues | | | |
| Property taxes | \$ 18,711,870 | \$ 17,852,586 | 4.8 |
| Other | 5,150,858 | 4,568,264 | 12.8 |
| Total Revenues | \$ 46,913,396 | \$ 46,253,457 | 1.4 |
| Expenses | | | |
| General government | \$ 6,427,375 | \$ 6,119,595 | 5.0 |
| Public safety | 11,748,279 | 9,899,512 | 18.7 |
| Highways and streets | 8,781,879 | 8,117,411 | 8.2 |
| Sanitation | 414,879 | 306,513 | 35.4 |
| Human services | 10,148,186 | 9,797,041 | 3.6 |
| Health | 1,853,575 | 1,560,324 | 18.8 |
| Culture and recreation | 350,222 | 327,280 | 7.0 |
| Conservation of natural resources | 1,569,869 | 1,122,183 | 39.9 |
| Economic development | 10,000 | 1,304 | 666.9 |
| Interest | 827,791 | 2,819,423 | (70.6) |
| Total Expenses | \$ 42,132,055 | \$ 40,070,586 | 5.1 |
| Change in Net Position | \$ 4,781,341 | \$ 6,182,871 | (22.7) |
| Net Position – Beginning of Year | \$ 84,671,013 | \$ 78,590,020 | 7.7 |
| Change in accounting principle | - | (101,878) | (100.0) |
| Net Position – Beginning of Year, as restated | \$ 84,671,013 | \$ 78,488,142 | 7.9 |
| Net Position – End of Year | \$ 89,452,354 | \$ 84,671,013 | 5.6 |

Total revenues surpassed expenses and, therefore, net position increased \$4,790,702 over last year due to increases in operating grants and contributions.

The government-wide cost of all governmental activities this year was \$42,132,055.

- Some of the cost was paid by the users of the County’s programs (\$5,945,342).
- The federal and state governments subsidized certain programs with grants and contributions (\$17,105,326).

- The remainder of the County’s governmental activities’ costs (\$19,081,387) was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was covered by \$18,711,870 in property taxes, \$2,470,953 of state aid, \$2,679,905 of other general revenues, and resulted in an increase to net position.



(Unaudited)

Table A-3 presents the cost of each of the County’s program functions, as well as each function’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table A-3
Expenses and Net (Revenue) Cost of Services**

| | Total Cost of Services | | Percentage Change (%) | Net (Revenue) Cost of Services | | Percentage Change (%) |
|-----------------------------------|------------------------|----------------------|-----------------------------|--------------------------------|----------------------|-----------------------------|
| | 2019 | 2018 | | 2019 | 2018 | |
| Governmental Activities | | | | | | |
| General government | \$ 6,427,375 | \$ 6,119,595 | 5.0 | \$ 4,888,525 | \$ 4,380,035 | 11.6 |
| Public safety | 11,748,279 | 9,899,512 | 18.7 | 9,287,613 | 7,579,797 | 22.5 |
| Highways and streets | 8,781,879 | 8,117,411 | 8.2 | (453,959) | (2,430,871) | 81.3 |
| Sanitation | 414,879 | 306,513 | 35.4 | 102,438 | 56,049 | 82.8 |
| Human services | 10,148,186 | 9,797,041 | 3.6 | 3,697,632 | 3,276,306 | 12.9 |
| Health | 1,853,575 | 1,560,324 | 18.8 | 656,760 | 478,065 | 37.4 |
| Culture and recreation | 350,222 | 327,280 | 7.0 | 350,222 | 327,280 | 7.1 |
| Conservation of natural resources | 1,569,869 | 1,122,183 | 39.9 | (275,635) | (249,409) | 10.5 |
| Economic development | 10,000 | 1,304 | 666.9 | - | 1,304 | (100.0) |
| Interest | 827,791 | 2,819,423 | (70.6) | 827,791 | 2,819,423 | (70.6) |
| Total | \$ 42,132,055 | \$ 40,070,586 | 5.1 | \$ 19,081,387 | \$ 16,237,979 | 17.5 |

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County, as a whole, is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$14,035,191. Revenues for the County’s governmental funds were \$46,102,806, while total expenditures were \$45,945,467.

The General Fund includes the primary operations of the County in providing services to citizens. The fund balance increased by \$294,736 during 2019 due primarily to increases in intergovernmental revenue.

The Road and Bridge Special Revenue Fund has a total fund balance of \$2,354,188. Fund balance increased from 2018 due to the layover of 2019 projects to 2020.

The Health and Human Services Special Revenue Fund has a total fund balance of \$1,739,806. It decreased \$209,375 from 2018 due to unplanned expenditures for out-of-home placements.

The Land Management Special Revenue Fund has a total fund balance of \$1,165,275. It increased \$48,758 from 2018 due to land sales.

The General Obligation Jail Bond Special Revenue Fund has a total fund balance of \$1,375,505. It increased \$74,731 from 2018 due to increased tax revenues.

The CIP Project Bond Capital Projects Fund has a total fund balance of \$89,196. It decreased \$2,241,153 from 2018 due to construction costs of a major capital facility.

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

| | Year Ended | | Change | |
|------------------------------------|----------------------|----------------------|------------------------|----------------|
| | December 31, 2019 | December 31, 2018 | Increase (Decrease) | Percent (%) |
| Taxes | \$ 10,415,437 | \$ 9,578,120 | \$ 837,317 | 8.7 |
| Special assessments | 17,549 | 2,603 | 14,946 | 574.2 |
| Licenses and permits | 132,362 | 148,831 | (16,469) | (11.1) |
| Intergovernmental | 4,246,890 | 4,039,677 | 207,213 | 5.1 |
| Charges for services | 1,974,027 | 2,060,820 | (86,793) | (4.2) |
| Fines and forfeits | 22,493 | 19,796 | 2,697 | 13.6 |
| Gifts and contributions | 169,657 | 126,903 | 42,754 | 33.7 |
| Investment earnings | 434,714 | 91,348 | 343,366 | 375.9 |
| Miscellaneous and other | 762,384 | 852,449 | (90,065) | (10.6) |
| Total General Fund Revenues | \$ 18,175,513 | \$ 16,920,547 | \$ 1,254,966 | 7.4 |

Total General Fund revenues increased by \$1,254,966, or 7.4 percent, from the previous year.

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

| | Year Ended | | Change | |
|---------------------------|----------------------|----------------------|------------------------|----------------|
| | December 31, 2019 | December 31, 2018 | Increase (Decrease) | Percent (%) |
| General government | \$ 6,300,861 | \$ 5,712,073 | \$ 588,788 | 10.3 |
| Public safety | 11,003,776 | 10,260,316 | 743,460 | 7.2 |
| Sanitation | 413,913 | 302,589 | 111,324 | 36.8 |
| Culture and recreation | 350,222 | 327,280 | 22,942 | 7.0 |
| Conservation | 265,333 | 325,394 | (60,061) | (18.5) |
| Economic development | 10,000 | 1,295 | 8,705 | 672.2 |
| Debt service | 82,841 | 86,830 | (3,989) | (4.6) |
| Total Expenditures | \$ 18,426,946 | \$ 17,015,777 | \$ 1,411,169 | 8.3 |

Total General Fund expenditures increased by \$1,411,169, or 8.3 percent, from the previous year.

General Fund Budgetary Highlights

Over the course of the year, the County revised the annual operating budget for the General Fund primarily for additional public safety expenditures. The intergovernmental and miscellaneous revenue budgets were revised for additional aid, grant funding, and miscellaneous fees. The total budget did not change. In general, the County does not make a significant amount of budget amendments during the year.

- Actual revenues were \$351,692 more than budgeted; this is due to intergovernmental revenues and investment earnings.
- Overall, the actual expenditures were \$459,781 more than budgeted due to public safety.

CAPITAL ASSETS

By the end of 2019, the County had invested \$114,386,949 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 2.A.3. to the financial statements.) Total depreciation expense for the year was \$4,063,121.

Table A-6
The County's Capital Assets

| | Governmental Activities | | Percent Change (%) |
|-------------------------------------|-------------------------|-----------------------|-----------------------|
| | 2019 | 2018 | |
| Land | \$ 4,483,016 | \$ 4,413,866 | 1.6 |
| Construction-in-progress | 1,884,506 | 1,967,984 | (4.2) |
| Buildings and building improvements | 30,955,303 | 26,935,330 | 14.9 |
| Machinery, furniture, and equipment | 11,313,131 | 10,464,684 | 8.1 |
| Intangibles | 791,822 | 769,292 | 2.9 |
| Infrastructure | 122,549,883 | 120,813,211 | 1.4 |
| Less: accumulated depreciation | <u>(57,590,712)</u> | <u>(53,778,169)</u> | 7.1 |
| Total | <u>\$ 114,386,949</u> | <u>\$ 111,586,198</u> | 2.5 |

LONG-TERM LIABILITIES

At year-end, the County had \$25,325,427 in long-term debt outstanding.

- The County's governmental activities' total debt decreased \$1,326,060 during the fiscal year, due primarily to the payments made on the County's debt.

- Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value of taxable property. At the end of 2019, Pine County’s debt was 0.92 percent of its total market value of taxable property.

**Table A-7
The County’s Long-Term Debt**

| | Governmental Activities | | Percent Change (%) |
|--|-------------------------|----------------------|-----------------------|
| | 2019 | 2018 | |
| General Obligation Administrative Building Bonds | \$ 3,730,000 | \$ 3,905,000 | (4.5) |
| General Obligation Capital Improvement Bonds | 9,425,000 | 10,060,000 | (6.3) |
| General Obligation Crossover Refunding Bonds | 11,400,000 | 12,095,000 | (5.7) |
| Special assessments | - | 72,521 | (100.0) |
| General Obligation MPCA Loans | 707,144 | 395,566 | 78.8 |
| Installment payable | 53,787 | 107,574 | (50.0) |
| Capital lease | 9,496 | 15,826 | (40.0) |
| Total | \$ 25,325,427 | \$ 26,651,487 | (5.0) |

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

By the end of 2019, Pine County approved its balanced 2020 revenue and expenditure budgets and approved a three percent tax levy increase in 2020.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County’s finances and to demonstrate the County’s accountability for the money it receives. Questions about this report or additional financial information should be addressed to Kelly Schroeder, Pine County Auditor-Treasurer, Pine County Courthouse, 635 Northridge Drive Northwest, Suite 240, Pine City, Minnesota 55063.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

| | | <u>Primary Government Governmental Activities</u> |
|---|-----------|---|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ | 16,117,641 |
| Petty cash and change funds | | 2,425 |
| Taxes receivable – delinquent | | 884,988 |
| Special assessments receivable – noncurrent | | 679,330 |
| Accounts receivable | | 1,880,651 |
| Accrued interest receivable | | 19,177 |
| Loans receivable | | 99,629 |
| Due from other governments | | 2,403,586 |
| Inventories | | 441,563 |
| Prepaid items | | 106,571 |
| Capital assets | | |
| Non-depreciable | | 6,367,522 |
| Depreciable – net of accumulated depreciation | | <u>108,019,427</u> |
| Total Assets | \$ | <u>137,022,510</u> |
| <u>Deferred Outflows of Resources</u> | | |
| Deferred pension outflows | \$ | 3,799,546 |
| Deferred other postemployment benefits outflows | | 178,389 |
| Refunding deferred charge on bonds | | <u>1,576,247</u> |
| Total Deferred Outflows of Resources | \$ | <u>5,554,182</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

| | | <u>Primary Government Governmental Activities</u> |
|--|-----------|---|
| <u>Liabilities</u> | | |
| Accounts payable | \$ | 897,245 |
| Salaries payable | | 1,351,627 |
| Contracts payable | | 812,098 |
| Customer deposits | | 11,838 |
| Due to other governments | | 1,282,376 |
| Accrued interest payable | | 359,198 |
| Unearned revenue | | 70,938 |
| Long-term liabilities | | |
| Due within one year | | 1,670,117 |
| Due in more than one year | | 26,789,851 |
| Other postemployment benefits liability | | 2,107,594 |
| Net pension liability | | 11,166,527 |
| | | <hr/> |
| Total Liabilities | \$ | 46,519,409 |
| | | <hr/> |
| <u>Deferred Inflows of Resources</u> | | |
| Deferred pension inflows | \$ | 6,519,207 |
| Deferred other postemployment benefits inflows | | 85,722 |
| | | <hr/> |
| Total Deferred Inflows of Resources | \$ | 6,604,929 |
| | | <hr/> |
| <u>Net Position</u> | | |
| Net investment in capital assets | \$ | 89,390,310 |
| Restricted for | | |
| General government | | 462,697 |
| Public safety | | 493,938 |
| Highways and streets | | 689,505 |
| Health | | 156,050 |
| Human services | | 334,763 |
| Conservation of natural resources | | 504,544 |
| Economic development | | 8,685 |
| Debt service | | 2,390,950 |
| Unrestricted | | (4,979,088) |
| | | <hr/> |
| Total Net Position | \$ | 89,452,354 |
| | | <hr/> <hr/> |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Program Revenues | | | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position Governmental Activities |
|--|--|---|---|---|--|
| Expenses | Fees, Charges, Fines, and Other | Operating Grants and Contributions | Capital Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position Governmental Activities |
| <u>Functions/Programs</u> | | | | | |
| Primary Government | | | | | |
| Governmental activities | | | | | |
| General government | \$ 6,427,375 | \$ 1,182,727 | \$ 356,123 | \$ - | \$ (4,888,525) |
| Public safety | 11,748,279 | 1,405,456 | 1,055,210 | - | (9,287,613) |
| Highways and streets | 8,781,879 | 252,039 | 4,387,705 | 4,596,094 | 453,959 |
| Sanitation | 414,879 | 186,876 | 125,565 | - | (102,438) |
| Human services | 10,148,186 | 1,884,431 | 4,380,643 | - | (3,883,112) |
| Health | 1,853,575 | 450,132 | 932,163 | - | (471,280) |
| Culture and recreation | 350,222 | - | - | - | (350,222) |
| Conservation of natural resources | 1,569,869 | 1,669,451 | 176,053 | - | 275,635 |
| Economic development | 10,000 | 10,000 | - | - | - |
| Interest | 827,791 | - | - | - | (827,791) |
| Total Primary Government | \$ 42,132,055 | \$ 7,041,112 | \$ 11,413,462 | \$ 4,596,094 | \$ (19,081,387) |
| General Revenues | | | | | |
| Property taxes | | | | | \$ 18,711,870 |
| Sales tax | | | | | 1,283,020 |
| Mortgage registry and deed tax | | | | | 29,344 |
| Payments in lieu of tax | | | | | 669,913 |
| Grants and contributions not restricted to specific programs | | | | | 2,470,953 |
| Investment earnings | | | | | 440,134 |
| Gain on sale of capital assets | | | | | 13,247 |
| Miscellaneous | | | | | 244,247 |
| Total general revenues | | | | | \$ 23,862,728 |
| Change in net position | | | | | \$ 4,781,341 |
| Net Position – Beginning | | | | | 84,671,013 |
| Net Position – Ending | | | | | \$ 89,452,354 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**PINE COUNTY
PINE CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | General | Road and Bridge | Health and Human Services |
|---|---------------------|----------------------------|--|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 6,056,673 | \$ 2,816,753 | \$ 1,536,700 |
| Undistributed cash in agency funds | 218,392 | 33,250 | 66,479 |
| Change funds | 2,275 | 150 | - |
| Taxes receivable | | | |
| Delinquent | 481,937 | 93,913 | 182,604 |
| Special assessments receivable | | | |
| Noncurrent | 39,286 | - | - |
| Accounts receivable | 55,576 | - | 243,767 |
| Accrued interest receivable | 19,177 | - | - |
| Due from other funds | 486,889 | 13,915 | 303 |
| Due from other governments | 181,219 | 1,267,500 | 954,867 |
| Loans receivable | 9,629 | - | - |
| Inventories | - | 441,563 | - |
| Prepaid items | 106,333 | - | - |
| | \$ 7,657,386 | \$ 4,667,044 | \$ 2,984,720 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 388,427 | \$ 163,511 | \$ 320,116 |
| Salaries payable | 782,923 | 156,385 | 403,371 |
| Contracts payable | - | 812,098 | - |
| Due to other funds | 12,021 | 1,700 | 29,533 |
| Due to other governments | 212,953 | 21,839 | 337,320 |
| Unearned revenue | 70,938 | - | - |
| Customer deposits | 11,838 | - | - |
| | \$ 1,479,100 | \$ 1,155,533 | \$ 1,090,340 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | \$ 447,675 | \$ 1,157,323 | \$ 163,935 |

EXHIBIT 3

| <u>Land Management</u> | <u>General Obligation Jail Bond</u> | <u>CIP Project Bond</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|----------------------------|---|---------------------------------|---|-----------------------------|
| \$ 2,342,443 | \$ 1,341,186 | \$ 78,743 | \$ 1,580,284 | \$ 15,752,782 |
| - | 20,180 | 6,324 | 20,234 | 364,859 |
| - | - | - | - | 2,425 |
| - | 58,111 | 11,685 | 56,738 | 884,988 |
| - | - | - | 640,044 | 679,330 |
| 1,581,308 | - | - | - | 1,880,651 |
| - | - | - | - | 19,177 |
| - | - | - | - | 501,107 |
| - | - | - | - | 2,403,586 |
| - | - | - | 90,000 | 99,629 |
| - | - | - | - | 441,563 |
| 238 | - | - | - | 106,571 |
| <u>\$ 3,923,989</u> | <u>\$ 1,419,477</u> | <u>\$ 96,752</u> | <u>\$ 2,387,300</u> | <u>\$ 23,136,668</u> |
| \$ 341 | \$ - | \$ - | \$ 24,850 | \$ 897,245 |
| 8,948 | - | - | - | 1,351,627 |
| - | - | - | - | 812,098 |
| 457,853 | - | - | - | 501,107 |
| 710,264 | - | - | - | 1,282,376 |
| - | - | - | - | 70,938 |
| - | - | - | - | 11,838 |
| <u>\$ 1,177,406</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,850</u> | <u>\$ 4,927,229</u> |
| <u>\$ 1,581,308</u> | <u>\$ 43,972</u> | <u>\$ 7,556</u> | <u>\$ 772,479</u> | <u>\$ 4,174,248</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Health and Human Services</u> |
|--|---------------------|----------------------------|--|
| Fund Balances | | | |
| Nonspendable | | | |
| Inventories | \$ - | \$ 441,563 | \$ - |
| Missing heirs | 39,344 | - | - |
| Prepaid items | 106,333 | - | - |
| Restricted | | | |
| Veteran's outreach donations | 1,040 | - | - |
| Shop with a cop | 29 | - | - |
| ECDTF federal forfeitures | 122,138 | - | - |
| Community restitution | 105 | - | - |
| Sheriff's donation | 1,144 | - | - |
| Debt service | - | - | - |
| Law library | 44,027 | - | - |
| Recorder's equipment purchases | 194,513 | - | - |
| Recorder's compliance | 197,759 | - | - |
| Economic development | 8,685 | - | - |
| E-911 | 94,936 | - | - |
| Aquatic invasive species | 171,573 | - | - |
| Permit to carry | 142,776 | - | - |
| Sheriff's backpack program | 41 | - | - |
| Equitable share program | 239 | - | - |
| Sheriff's contingency | 3,241 | - | - |
| Attorney's forfeitures | 85,493 | - | - |
| Sheriff's forfeitures | 33,687 | - | - |
| Septic system upgrade program | 25,358 | - | - |
| Timber development | - | - | - |
| Blight cleanup | - | - | - |
| Road access | - | - | - |
| Septic loans | - | - | - |
| Ditches | - | - | - |
| MIECHV grant | - | - | 323,954 |
| Adult protection grant | - | - | 10,809 |
| EBHVP grant | - | - | 156,050 |
| Sandstone Training Center | 10,109 | - | - |
| Assigned | | | |
| Human services | - | - | 981,375 |
| Health | - | - | 258,257 |
| Highways and streets | - | 2,380,443 | - |
| Conservation of natural resources | - | - | - |
| Jail canteen | 26,531 | - | - |
| Capital projects | - | - | - |
| Unassigned | 4,421,510 | (467,818) | - |
| Total Fund Balances | \$ 5,730,611 | \$ 2,354,188 | \$ 1,730,445 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 7,657,386 | \$ 4,667,044 | \$ 2,984,720 |

EXHIBIT 3
(Continued)

| <u>Land Management</u> | <u>General Obligation Jail Bond</u> | <u>CIP Project Bond</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|----------------------------|---|---------------------------------|---|----------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 441,563 |
| - | - | - | - | 39,344 |
| 238 | - | - | - | 106,571 |
| - | - | - | - | 1,040 |
| - | - | - | - | 29 |
| - | - | - | - | 122,138 |
| - | - | - | - | 105 |
| - | - | - | - | 1,144 |
| - | 1,375,505 | 89,196 | 1,204,372 | 2,669,073 |
| - | - | - | - | 44,027 |
| - | - | - | - | 194,513 |
| - | - | - | - | 197,759 |
| - | - | - | - | 8,685 |
| - | - | - | - | 94,936 |
| - | - | - | - | 171,573 |
| - | - | - | - | 142,776 |
| - | - | - | - | 41 |
| - | - | - | - | 239 |
| - | - | - | - | 3,241 |
| - | - | - | - | 85,493 |
| - | - | - | - | 33,687 |
| - | - | - | - | 25,358 |
| 42,648 | - | - | - | 42,648 |
| 116,608 | - | - | - | 116,608 |
| 49,765 | - | - | - | 49,765 |
| - | - | - | 93,064 | 93,064 |
| - | - | - | 30,886 | 30,886 |
| - | - | - | - | 323,954 |
| - | - | - | - | 10,809 |
| - | - | - | - | 156,050 |
| - | - | - | - | 10,109 |
| - | - | - | - | 981,375 |
| - | - | - | - | 258,257 |
| - | - | - | - | 2,380,443 |
| 956,016 | - | - | - | 956,016 |
| - | - | - | - | 26,531 |
| - | - | - | 261,649 | 261,649 |
| - | - | - | - | 3,953,692 |
| <u>\$ 1,165,275</u> | <u>\$ 1,375,505</u> | <u>\$ 89,196</u> | <u>\$ 1,589,971</u> | <u>\$ 14,035,191</u> |
| <u>\$ 3,923,989</u> | <u>\$ 1,419,477</u> | <u>\$ 96,752</u> | <u>\$ 2,387,300</u> | <u>\$ 23,136,668</u> |

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019**

| | | |
|---|---------------------|------------------------------------|
| Fund balance – total governmental funds (Exhibit 3) | | \$ 14,035,191 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 114,386,949 |
| Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds. | | 3,799,546 |
| Deferred outflows of resources resulting from other postemployment benefits obligations are not available resources and, therefore, are not reported in the governmental funds. | | 178,389 |
| Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds. | | 4,174,248 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| General obligation bonds | \$ (24,555,000) | |
| Unamortized premiums on bonds | (1,196,292) | |
| Installment payable | (53,787) | |
| Unamortized deferred outflows of resources on refunding bonds | 1,576,247 | |
| G.O. MPCA loan payable | (707,144) | |
| Capital lease payable | (9,496) | |
| Compensated absences | (1,938,249) | |
| Other postemployment benefits liability | (2,107,594) | |
| Net pension liability | <u>(11,166,527)</u> | (40,157,842) |
| Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds. | | (359,198) |
| Deferred inflows of resources resulting from pension obligations are not due and payable in the current period, and, therefore, are not reported in the governmental funds. | | (6,519,207) |
| Deferred inflows of resources resulting from other postemployment benefits obligations are not available resources and, therefore, are not reported in the governmental funds. | | <u>(85,722)</u> |
| Net Position of Governmental Activities (Exhibit 1) | | <u><u>\$ 89,452,354</u></u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Health and Human Services</u> |
|---|----------------------|----------------------------|--|
| Revenues | | | |
| Taxes | \$ 10,415,437 | \$ 3,187,172 | \$ 3,802,328 |
| Special assessments | 17,549 | - | - |
| Licenses and permits | 132,362 | - | 12,650 |
| Intergovernmental | 4,246,890 | 8,414,679 | 6,609,659 |
| Charges for services | 1,974,027 | 232,782 | 862,885 |
| Fines and forfeits | 22,493 | - | - |
| Gifts and contributions | 169,657 | - | 4,449 |
| Investment earnings | 434,714 | - | 1,367 |
| Miscellaneous | 762,384 | 19,257 | 363,258 |
| Total Revenues | \$ 18,175,513 | \$ 11,853,890 | \$ 11,656,596 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 6,300,861 | \$ - | \$ - |
| Public safety | 11,003,776 | - | - |
| Highways and streets | - | 9,101,128 | - |
| Sanitation | 413,913 | - | - |
| Human services | - | - | 10,017,537 |
| Health | - | - | 1,857,795 |
| Culture and recreation | 350,222 | - | - |
| Conservation of natural resources | 265,333 | - | - |
| Economic development | 10,000 | - | - |
| Intergovernmental | | | |
| Highways and streets | - | 510,292 | - |
| Capital outlay | | | |
| General government | - | - | - |
| Debt service | | | |
| Principal | 78,851 | - | - |
| Interest | 3,990 | - | - |
| Administrative charges | - | - | - |
| Total Expenditures | \$ 18,426,946 | \$ 9,611,420 | \$ 11,875,332 |
| Excess of Revenues Over (Under) Expenditures | \$ (251,433) | \$ 2,242,470 | \$ (218,736) |

EXHIBIT 5

| <u>Land Management</u> | <u>General Obligation Jail Bond</u> | <u>CIP Project Bond</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|----------------------------|---|---------------------------------|---|-----------------------------|
| \$ - | \$ 1,155,984 | \$ 336,428 | \$ 1,168,497 | \$ 20,065,846 |
| - | - | - | 61,556 | 79,105 |
| - | - | - | - | 145,012 |
| 46,432 | 19,654 | 5,742 | 19,876 | 19,362,932 |
| - | - | - | 9,080 | 3,078,774 |
| - | - | - | - | 22,493 |
| - | - | - | - | 174,106 |
| - | - | 4,053 | - | 440,134 |
| 1,554,145 | - | - | 35,360 | 2,734,404 |
| <u>\$ 1,600,577</u> | <u>\$ 1,175,638</u> | <u>\$ 346,223</u> | <u>\$ 1,294,369</u> | <u>\$ 46,102,806</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 6,300,861 |
| - | - | - | - | 11,003,776 |
| - | - | - | - | 9,101,128 |
| - | - | - | - | 413,913 |
| - | - | - | - | 10,017,537 |
| - | - | - | - | 1,857,795 |
| - | - | - | - | 350,222 |
| 1,005,650 | - | - | 269,512 | 1,540,495 |
| - | - | - | - | 10,000 |
| - | - | - | - | 510,292 |
| - | - | 2,302,853 | 122,545 | 2,425,398 |
| - | 695,000 | 175,000 | 635,000 | 1,583,851 |
| - | 404,200 | 108,338 | 309,100 | 825,628 |
| - | 1,707 | 1,185 | 1,679 | 4,571 |
| <u>\$ 1,005,650</u> | <u>\$ 1,100,907</u> | <u>\$ 2,587,376</u> | <u>\$ 1,337,836</u> | <u>\$ 45,945,467</u> |
| <u>\$ 594,927</u> | <u>\$ 74,731</u> | <u>\$ (2,241,153)</u> | <u>\$ (43,467)</u> | <u>\$ 157,339</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Health and Human Services</u> |
|---|----------------------------|----------------------------|--|
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 546,169 | \$ - | \$ - |
| Transfers out | - | - | - |
| Proceeds from MPCA loan | - | - | - |
| Proceeds from sale of capital assets | - | 13,247 | - |
| | <u>-</u> | <u>13,247</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | \$ 546,169 | \$ 13,247 | \$ - |
| Net Change in Fund Balances | \$ 294,736 | \$ 2,255,717 | \$ (218,736) |
| Fund Balances – January 1 | 5,435,875 | 145,568 | 1,949,181 |
| Increase (decrease) in inventories | - | (47,097) | - |
| | <u>-</u> | <u>(47,097)</u> | <u>-</u> |
| Fund Balances – December 31 | <u>\$ 5,730,611</u> | <u>\$ 2,354,188</u> | <u>\$ 1,730,445</u> |

EXHIBIT 5
(Continued)

| <u>Land Management</u> | <u>General Obligation Jail Bond</u> | <u>CIP Project Bond</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|----------------------------|---|---------------------------------|---|-----------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 546,169 |
| (546,169) | - | - | - | (546,169) |
| - | - | - | 311,578 | 311,578 |
| - | - | - | - | 13,247 |
| <u>\$ (546,169)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 311,578</u> | <u>\$ 324,825</u> |
| \$ 48,758 | \$ 74,731 | \$ (2,241,153) | \$ 268,111 | \$ 482,164 |
| 1,116,517 | 1,300,774 | 2,330,349 | 1,321,860 | 13,600,124 |
| - | - | - | - | (47,097) |
| <u><u>\$ 1,165,275</u></u> | <u><u>\$ 1,375,505</u></u> | <u><u>\$ 89,196</u></u> | <u><u>\$ 1,589,971</u></u> | <u><u>\$ 14,035,191</u></u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances – total governmental funds (Exhibit 5) \$ 482,164

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.

| | | |
|-----------------------------------|--------------------|---------|
| Unavailable revenue – December 31 | \$ 4,174,248 | |
| Unavailable revenue – January 1 | <u>(3,376,905)</u> | 797,343 |

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the fund statements, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the net book value of the assets disposed.

| | | |
|--|--------------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 6,863,872 | |
| Current year depreciation | <u>(4,063,121)</u> | 2,800,751 |

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

| | | |
|----------------------|--|-----------|
| Proceeds of new debt | | |
| Loans issued | | (311,578) |

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|-----------------------------|---------------|-----------|
| Principal repayments | | |
| General obligation bonds | \$ 1,505,000 | |
| Special assessments payable | 72,521 | |
| Capital lease payable | 6,330 | |
| Installment payable | <u>53,787</u> | 1,637,638 |

**PINE COUNTY
PINE CITY, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | | |
|--|----|-------------|-----------------------------------|
| Change in accrued interest payable | \$ | 40,520 | |
| Change in compensated absences | | (151,295) | |
| Current year amortization of premiums | | 101,306 | |
| Current year amortization of refunding deferred charge | | (139,418) | |
| Change in other postemployment benefits liability | | (15,429) | |
| Change in deferred other postemployment benefits outflows of resources | | 75,627 | |
| Change in deferred other postemployment benefits inflows of resources | | (85,722) | |
| Change in net pension liability | | (293,712) | |
| Change in deferred pension outflows of resources | | (2,586,685) | |
| Change in deferred pension inflows of resources | | 2,476,928 | |
| Change in inventories | | (47,097) | (624,977) |
| Change in Net Position of Governmental Activities (Exhibit 2) | | | <u><u>\$ 4,781,341</u></u> |

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FIDUCIARY FUNDS

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2019**

| | <u>Agency Funds</u> |
|-------------------------------|---------------------------------|
| <u>Assets</u> | |
| Cash and pooled investments | \$ 716,828 |
| Accounts receivable | 422 |
| Due from other governments | <u>58,793</u> |
| Total Assets | <u><u>\$ 776,043</u></u> |
| <u>Liabilities</u> | |
| Due to other governments | <u><u>\$ 776,043</u></u> |

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**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies

Pine County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2019. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Pine County was established March 1, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Pine County. The County is governed by a five-member Board of County Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures, which are described in Note 5.C. The County also participates in jointly-governed organizations, which are described in Note 5.D. A related organization is described in Note 5.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The government-wide statement of net position is presented on a consolidated basis by column and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of the governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund is used to account for restricted intergovernmental revenues and other revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Health and Human Services Special Revenue Fund is used to account for the restricted revenues of the economic assistance and community social services programs.

The Land Management Special Revenue Fund is used to account for the activities of the Land Department. Financing is provided primarily from the lease and sale of land and timber on County-managed, tax-forfeited lands.

The General Obligation Jail Bond Debt Service Fund is used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs.

The CIP Project Bond Capital Projects Fund is used to account for financial resources to be used for construction of a major capital facility.

Additionally, the County reports the following fund type:

Agency funds do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in a fiduciary capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pine County considers all revenues to be available if they are collected within 90 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at year-end, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2019 were \$440,134.

Pine County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the net asset value per share provided by the pool.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent maturities of interfund loans).

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments receivable consist of noncurrent special assessments payable in 2019 and after.

No allowance for uncollectible receivables have been provided because such amounts are not expected to be material.

3. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average cost method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. On the government-wide financial statements, inventories are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Capital Assets (Continued)

initial, individual cost of more than \$10,000 and software of \$20,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------------|--------------|
| Buildings | 40 |
| Public domain infrastructure | 50 |
| Equipment and vehicles | 5 - 10 |
| Intangibles | 5 |

5. Unearned Revenue

Government-wide financial statements and governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County reports deferred outflows of resources only under the full accrual basis of accounting associated with deferred charges on refunding bonds, pension plans, and other postemployment benefits (OPEB) and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types of deferred inflows. The governmental funds report unavailable revenue because governmental fund revenues are not recognized until available (collected not later than 90 days after the end of the County's year). Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The County also reports deferred inflows of resources associated with pension benefits and OPEB. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

8. Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year of bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Classification of Net Position

Net position represents the differences between assets and deferred outflows of resources, and liabilities and deferred inflows of resources in the government-wide financial statements. The net investment of capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net position is reported as restricted in government-wide financial statements when there are limitations on its use through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is net position that does not meet the definition of restricted net position or net investment in capital assets.

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Pine County is bound to observe constraints imposed upon the use of the resources in the governmental funds.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

11. Classification of Fund Balances (Continued)

Nonspendable fund balance amounts cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted fund balance amounts have constraints placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

Committed funds can only be established, modified, or rescinded by formal resolution of the County Board.

Assigned funds are those the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned funds are established by the County Auditor-Treasurer as allowed based on the County’s adopted policy. In governmental funds other than the General Fund, assigned fund balance represents the remaining positive amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the County’s General Fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County’s policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the County’s policy to use committed first, then assigned, and finally unassigned amounts.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits, cash on hand, and investments to the basic financial statements follows:

| | |
|---|---------------|
| Government-Wide Statement of Net Position | |
| Cash and pooled investments | \$ 16,117,641 |
| Change funds | 2,425 |
| Statement of Fiduciary Net Position | |
| Cash and pooled investments | 716,828 |
| Total Cash and Investments | \$ 16,836,894 |
| Deposits | \$ 2,649,790 |
| Change funds | 2,425 |
| Investments | 14,184,679 |
| Total Cash and Investments | \$ 16,836,894 |

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minnesota Statute § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; state and local government general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statute require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. However, the County complies with Minnesota Statute in establishing collateral for its deposits. As of December 31, 2019, the County’s deposits were not subject to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of the investment. The County's policy is to minimize its exposure to interest rate risk by: (1) structuring its investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; (2) diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized; and (3) investing operating funds primarily in shorter-term securities, MAGIC Fund, money market mutual funds, or similar investment pools.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of failure by the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County has a policy for investment custodial credit risk which permits brokers to hold investments only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. As of December 31, 2019, none of Pine County's investments were subject to custodial credit risk. A portion of these investments are covered by SIPC insurance.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that investing could include, but is not limited to: U.S. Treasury securities, short-term obligations of the U.S. governmental agencies and instrumentalities, mortgage-backed bonds, and A1-P1 rated commercial paper. It is the County's policy that securities having potential default risk shall be limited in size so that, in case of default, the portfolio's annual investment income will not exceed a loss on a single issuer's securities.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and pooled investment balances at December 31, 2019, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration | Interest | Carrying (Fair) Value |
|---|------------------|------------------|---------------------------------|-------------------------------|-----------------------------|
| | Credit Rating | Rating Agency | Risk Over 5% of Portfolio | Rate Risk Maturity Date | |
| Negotiable certificates of deposit | | | | | |
| JP Morgan Chase | NR | NR | N/A | 03/19/2020 | \$ 245,189 |
| Worlds Foremost Bank | NR | NR | N/A | 04/15/2020 | 199,968 |
| CIT Bank Salt Lake City, UT | NR | NR | N/A | 06/05/2020 | 250,150 |
| Synchrony Bank Retail | NR | NR | N/A | 10/13/2020 | 244,213 |
| Goldman Sachs | NR | NR | N/A | 10/13/2020 | 244,213 |
| Wells Fargo | NR | NR | N/A | 01/20/2021 | 100,404 |
| Keesler Federal Credit Union | NR | NR | N/A | 02/26/2021 | 253,815 |
| Comenity Capital Bank | NR | NR | N/A | 04/12/2021 | 175,500 |
| HSBC Bank USA | NR | NR | N/A | 10/07/2021 | 245,189 |
| Discover Bank Greenwood, DE | NR | NR | N/A | 01/25/2022 | 149,591 |
| BMW Bank of North America | NR | NR | N/A | 02/17/2022 | 245,146 |
| Ally Bank | NR | NR | N/A | 02/28/2022 | 255,390 |
| Wells Fargo | NR | NR | N/A | 03/01/2022 | 150,807 |
| Sallie Mae Bank | NR | NR | N/A | 06/21/2022 | 152,118 |
| American Express Federal Savings Bank | NR | NR | N/A | 08/29/2022 | 252,993 |
| American Express Centurion | NR | NR | N/A | 08/29/2022 | 50,598 |
| American Express Centurion | NR | NR | N/A | 12/05/2022 | 197,383 |
| EnerBank | NR | NR | N/A | 05/25/2023 | 255,648 |
| Toyota Financial | NR | NR | N/A | 06/15/2023 | 245,198 |
| Silvergate Bank | NR | NR | N/A | 11/29/2023 | 247,163 |
| First Technology Federal | NR | NR | N/A | 03/19/2024 | 250,890 |
| Morgan Stanley Bank | NR | NR | N/A | 10/30/2024 | 251,200 |
| BMO Harris | NR | NR | N/A | 12/12/2024 | 150,271 |
| Discover Bank | NR | NR | N/A | 06/26/2026 | 104,175 |
| Total negotiable certificates of deposit | | | | | \$ 4,917,212 |
| Investment pools | | | | | |
| MAGIC Fund | N/A | N/A | N/A | N/A | 9,267,467 |
| Total investments | | | | | \$ 14,184,679 |
| Deposits | | | | | 2,649,790 |
| Change funds | | | | | 2,425 |
| Total Cash and Investments | | | | | \$ 16,836,894 |

N/R – Not Rated

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Fair Value Measurement

The County uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The County follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the County has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- *Level 1:* Financial assets and liabilities are valued using inputs that are adjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.
- *Level 2:* Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

- *Level 3:* Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

At December 31, 2019, Pine County had the following recurring fair value measurements:

| | December 31, 2019 | Fair Value Measurements Using | | |
|---|----------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level | | | | |
| Negotiable certificates of deposit | \$ 4,917,212 | \$ 1,693,192 | \$ 3,224,020 | \$ - |
| Investments measured at the net asset value (NAV) | | | | |
| MAGIC Portfolio | \$ 8,267,467 | | | |
| MAGIC Term | 1,000,000 | | | |
| Total Investments Measured at the NAV | \$ 9,267,467 | | | |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

MAGIC is a local government investment pool which is quoted at a NAV. The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member. The MAGIC Fund currently consists of the MAGIC Portfolio and the MAGIC Term Series.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its NAV not reasonably practical.

Shares of MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the County at the time of purchase. Should the County need to redeem shares in a MAGIC Term Series prematurely, they must provide notice at least seven days prior to the premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield, less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

The County had \$634,706 in noncurrent special assessments and \$89,047 in loans receivable scheduled to be collected beyond one year as detailed below.

Loans Receivable

The County currently has outstanding a contract for deed with the City of Sandstone for the sale of the John Wright building. This receivable is reported in the Governmental Buildings Capital Projects Fund. In addition, the County has a loan participation certificate outstanding with a local business in order to encourage economic development in the County. This receivable is reported in the General Fund. Annual payments to the County for the loans are as follows:

| Year Ending December 31 | Contract for Deed | | Loan Participation Certificate | |
|----------------------------|-------------------|-------------|--------------------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2020 | \$ 10,000 | \$ - | \$ 582 | \$ 1,319 |
| 2021 | 10,000 | - | 671 | 1,229 |
| 2022 | 10,000 | - | 769 | 1,131 |
| 2023 | 60,000 | - | 882 | 1,018 |
| 2024 | - | - | 1,008 | 892 |
| 2025 - 2029 | - | - | 5,717 | 1,847 |
| Total | <u>\$ 90,000</u> | <u>\$ -</u> | <u>\$ 9,629</u> | <u>\$ 7,436</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

Governmental Activities

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 4,413,866 | \$ 69,150 | \$ - | \$ 4,483,016 |
| Construction in progress | 1,967,984 | 1,825,518 | 1,908,996 | 1,884,506 |
| Total capital assets not depreciated | \$ 6,381,850 | \$ 1,894,668 | \$ 1,908,996 | \$ 6,367,522 |
| Capital assets depreciated | | | | |
| Buildings | \$ 26,831,745 | \$ 4,019,973 | \$ - | \$ 30,851,718 |
| Building improvements | 103,585 | - | - | 103,585 |
| Machinery and equipment | 10,464,684 | 1,099,025 | 250,578 | 11,313,131 |
| Intangibles | 769,292 | 22,530 | - | 791,822 |
| Infrastructure | 120,813,211 | 1,736,672 | - | 122,549,883 |
| Total capital assets depreciated | \$ 158,982,517 | \$ 6,878,200 | \$ 250,578 | \$ 165,610,139 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 8,723,419 | \$ 735,759 | \$ - | \$ 9,459,178 |
| Building improvements | 6,126 | 4,143 | - | 10,269 |
| Machinery and equipment | 8,278,532 | 828,686 | 250,578 | 8,856,640 |
| Intangibles | 405,598 | 126,780 | - | 532,378 |
| Infrastructure | 36,364,494 | 2,367,753 | - | 38,732,247 |
| Total accumulated depreciation | \$ 53,778,169 | \$ 4,063,121 | \$ 250,578 | \$ 57,590,712 |
| Total capital assets depreciated, net | \$ 105,204,348 | \$ 2,815,079 | \$ - | \$ 108,019,427 |
| Capital Assets, Net | \$ 111,586,198 | \$ 4,709,747 | \$ 1,908,996 | \$ 114,386,949 |

Depreciation expense was charged to functions/programs of the government as follows:

| | |
|---|---------------------|
| Governmental Activities | |
| General government | \$ 584,363 |
| Public safety | 742,260 |
| Highways and streets | 2,730,689 |
| Conservation of natural resources | 5,809 |
| Total Depreciation Expense – Governmental Activities | \$ 4,063,121 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2019, is as follows:

| Receivable Fund | Payable Fund | Amount | Description |
|---|--|--------------------------|----------------------------|
| General Fund | Road and Bridge Special Revenue Fund | \$ 1,700 | Reimbursements |
| | Health and Human Services Special Revenue Fund | 28,720 | Reimbursements |
| | Land Management Special Revenue Fund | 456,469 | Forfeited tax distribution |
| Total due to General Fund | | <u>\$ 486,889</u> | |
| Road and Bridge Fund | General Fund | \$ 11,881 | Fuel and reimbursements |
| | Health and Human Services Special Revenue Fund | 813 | Reimbursements |
| | Land Management Special Revenue Fund | 1,221 | Fuel and auto repairs |
| Total due to Road and Bridge Special Revenue Fund | | <u>\$ 13,915</u> | |
| Health and Human Services Special Revenue Fund | General Fund | \$ 140 | Reimbursements |
| | Land Management Special Revenue Fund | 163 | Reimbursements |
| Total due to Health and Human Services Special Revenue Fund | | <u>\$ 303</u> | |
| Total Due To/From Other Funds | | <u><u>\$ 501,107</u></u> | |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Paybles, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2019, consisted of the following:

| | | |
|---|-------------------|----------------------------|
| Transfer to General Fund from Land Management Fund | \$ 456,169 | Forfeited tax distribution |
| Land Management Fund | <u>90,000</u> | Salary reimbursement |
| Total Interfund Transfers | <u>\$ 546,169</u> | |

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2019. The projects include the following:

| | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|--|----------------------|---------------------------------|
| Governmental Activities Roads and bridges | \$ 15,429,856 | \$ 2,974,406 |

2. Leases

Operating Leases

The County is committed under various operating leases for vehicles, copiers, and office equipment. The following is a summary of the operating lease expense for 2019:

| <u>Type of Property</u> | <u>Amount</u> |
|--------------------------------|-------------------|
| Copiers and office equipment | \$ 61,744 |
| Microsoft Enterprise Agreement | <u>49,000</u> |
| Total Operating Lease Expense | <u>\$ 110,744</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Leases

Operating Leases (Continued)

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2019:

| Year Ended | Amount |
|--|-----------|
| 2020 | \$ 56,151 |
| 2021 | 29,129 |
| 2022 | 7,044 |
| 2023 | 912 |
| Total Future Minimum Lease Payments | \$ 93,236 |

Capital Leases

The County entered into a lease agreement for use of a printer server. At December 31, 2019, the County had total assets under this lease of \$43,651 with the related accumulated depreciation of \$34,920. Future minimum lease payments under the lease are summarized in Note 2.C.4.

3. Long-Term Debt

Information on individual debt instruments follows:

| Types of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2019 |
|--|-------------------|----------------------------|-------------------------|-----------------------------|--|
| General obligation bonds | | | | | |
| 2012A G.O. Capital Improvement Plan Bonds | 2031 | \$480,000 - \$965,000 | 3.00 - 4.00 | \$ 13,410,000 | \$ 9,425,000 |
| 2015A G.O. Crossover Refunding Bonds | 2031 | \$725,000 - \$1,595,000 | 3.00 - 4.00 | 13,430,000 | 11,400,000 |
| 2017A G.O. Capital Improvement Plan Bonds | 2033 | \$220,000 - \$315,000 | 4.00 | 3,905,000 | 3,730,000 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

| Types of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2019 |
|--|-------------------|------------------------|-------------------------|-----------------------------|--|
| 2016 Minnesota Pollution Control Agency (MPCA) loans | 2030 | \$42,917 - \$51,849 | 2.00 | 945,000* | 707,144 |
| Installment payable | 2020 | \$53,787 | N/A | 161,361 | 53,787 |
| Printer server capital lease | 2021 | \$6,330 | 3.00 | 31,651 | 9,496 |
| Total General Obligation Bonds, Loans, Installment Payable, and Capital Lease | | | | <u>\$ 31,883,012</u> | <u>\$ 25,325,427</u> |
| Add: Unamortized premium | | | | | <u>1,196,292</u> |
| Total General Obligation Bonds, Loans, Installment Payable, and Capital Lease, Net | | | | | <u><u>\$ 26,521,719</u></u> |

*The total available for the County to draw down is \$945,000. At December 31, 2019, the County had drawn \$707,144.

4. Debt Service Requirements

Debt service requirements at December 31, 2019, were as follows:

| Year Ending December 31 | General Obligation Bonds | | MPCA Loan* | |
|----------------------------|--------------------------|---------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2020 | \$ 1,610,000 | \$ 761,313 | \$ - | \$ - |
| 2021 | 1,685,000 | 697,638 | 86,264 | 18,471 |
| 2022 | 1,750,000 | 634,888 | 87,998 | 16,737 |
| 2023 | 1,810,000 | 573,488 | 89,767 | 14,968 |
| 2024 | 1,885,000 | 509,713 | 91,571 | 13,164 |
| 2025 - 2029 | 10,500,000 | 1,590,419 | 486,215 | 37,459 |
| 2030 - 2033 | 5,315,000 | 197,622 | 103,185 | 1,550 |
| Total | <u>\$ 24,555,000</u> | <u>\$ 4,965,081</u> | <u>\$ 945,000</u> | <u>\$ 102,349</u> |

*The total available for the County to draw down is \$945,000. At December 31, 2019, the County had drawn \$707,144.

| Year Ending December 31 | Installment Payable | | Capital Lease | |
|----------------------------|---------------------|-------------|-----------------|-------------|
| | Principal | Interest | Principal | Interest |
| 2020 | \$ 53,787 | \$ - | \$ 6,330 | \$ - |
| 2021 | - | - | 3,166 | - |
| Total | <u>\$ 53,787</u> | <u>\$ -</u> | <u>\$ 9,496</u> | <u>\$ -</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2019, was as follows:

Governmental Activities

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| General obligation bonds | \$ 26,060,000 | \$ - | \$ 1,505,000 | \$ 24,555,000 | \$ 1,610,000 |
| Add: unamortized premium | 1,297,598 | - | 101,306 | 1,196,292 | - |
| 2016 MPCA loan | 395,566 | 311,578 | - | 707,144 | - |
| Installment payable | 107,574 | - | 53,787 | 53,787 | 53,787 |
| Capital lease | 15,826 | - | 6,330 | 9,496 | 6,330 |
| Special assessments | 72,521 | - | 72,521 | - | - |
| Compensated absences | 1,786,954 | 1,840,463 | 1,689,168 | 1,938,249 | - |
| Total Long-Term Liabilities | \$ 29,736,039 | \$ 2,152,041 | \$ 3,428,112 | \$ 28,459,968 | \$ 1,670,117 |

Debt is generally paid from the debt service funds and the CIP Project Bond Fund. The MPCA loan is paid from the Clean Water Partnership Program Fund. The installment payable, capital lease, and special assessments are paid from the General Fund. Compensated absences are paid from the General Fund and the Road and Bridge, Health and Human Services, and Land Management Special Revenue Funds. The net pension liability and other postemployment benefits are paid from the General Fund and the Road and Bridge and Health and Human Services Special Revenue Funds.

MPCA Loan

The County participates in a revolving loan program that resulted in entering into a loan agreement with the Minnesota Pollution Control Agency for financing septic systems. The loans are secured by special assessments placed on the individual parcels requesting repair of septic systems. The loans bear interest at two percent. The County can draw up to \$900,000 on this note. When the loan has been fully disbursed, the project has been fully completed, or the project implementation period has expired, then a final repayment schedule will be set. The tentative repayment schedule requires semi-annual installments of \$52,367 beginning June 15, 2021. The County has drawn down \$707,144 of the loan as of December 31, 2019.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Installment Payable

In 2018, the County entered into an agreement with a vendor to acquire services in exchange of annual payments of \$53,787, with the last payment due on January 15, 2020. The County paid \$53,787 of expenses related to the installment payable during 2019.

D. Deferred Inflows of Resources

Unavailable Revenue

Unavailable revenue consists of taxes and special assessments receivable, state and federal grants not collected soon enough after year-end to pay liabilities of the current period, money from state-aid highway allotments received but not yet earned, and other revenues. Unavailable revenue at December 31, 2019, is summarized by fund:

| | Taxes | Grants | State-Aid Highway Allotments | Loans | Other | Total |
|-------------------------------|-------------------|------------------|------------------------------------|-------------------|---------------------|---------------------|
| Major governmental funds | | | | | | |
| General | \$ 357,468 | \$ 37,693 | \$ - | \$ 31,553 | \$ 20,961 | \$ 447,675 |
| Special Revenue | | | | | | |
| Road and Bridge | 70,612 | 6,149 | 1,080,562 | - | - | 1,157,323 |
| Health and Human Services | 136,069 | 27,866 | - | - | - | 163,935 |
| Land Management | - | - | - | - | 1,581,308 | 1,581,308 |
| General Obligation Jail Bond | | | | | | |
| Debt Service | 43,972 | - | - | - | - | 43,972 |
| CIP Project Bond Capital | | | | | | |
| Projects | 7,556 | - | - | - | - | 7,556 |
| Nonmajor governmental funds | | | | | | |
| Clean Water Partnership | | | | | | |
| Program Special Revenue | - | - | - | 640,044 | - | 640,044 |
| General Obligation Courthouse | | | | | | |
| Bond Debt Service | 37,103 | - | - | - | - | 37,103 |
| Capital Projects | | | | | | |
| Governmental Buildings | 2,345 | - | - | 90,000 | - | 92,345 |
| Technology Equipment | 2,987 | - | - | - | - | 2,987 |
| Total | \$ 658,112 | \$ 71,708 | \$ 1,080,562 | \$ 761,597 | \$ 1,602,269 | \$ 4,174,248 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

E. Other Postemployment Benefits (OPEB)

1. Plan Description

Pine County administers an OPEB plan, a single-employer defined benefit health care plan, to eligible retirees and their dependents. OPEB are determined by the County Commissioners and can be amended by the County through its personnel manual and union contracts. Qualified employees first hired before March 1, 1996, are eligible, with exceptions, for employer contributions for retiree health care. Contributions vary depending on the employee's bargaining unit and the County contracts in effect.

The County also provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing coverage will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of the December 31, 2017, actuarial valuation there are 229 active employees electing coverage, 31 active employees waiving coverage, and 28 retirees electing coverage.

The cost of OPEB is funded on a "pay-as-you-go" method.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

2. Total OPEB Liability

The County's OPEB liability was measured as of December 31, 2018, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability of \$2,107,594 was rolled forward from the valuation date for the fiscal year ended December 31, 2019. The total OPEB liability is liquidated primarily by the General Fund and the Road and Bridge and Health and Human Services Special Revenue Funds.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

2. Total OPEB Liability (Continued)

The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------------|--|
| Inflation | 2.75 percent |
| Salary increases | Based on age and years of service |
| Health care trend rate | 6.90 percent, decreasing to an ultimate rate of 4.40 percent in 2074 |

General Employees Retirement Plan employees' mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015 and other adjustments. PERA Public Employees Police and Fire Plan and PERA Public Employees Local Government Correctional Service Retirement Plan employees' mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2016 and other adjustments.

The discount rate used to measure the total OPEB liability was 3.71 percent. The discount rate is equal to the 20-year municipal bond yield using the Fidelity 20-Year Municipal GO AA Index.

3. Changes in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|------------------------------------|---------------------------------|
| Balance as of January 1, 2019 | \$ 2,092,165 |
| Changes for the year | |
| Service cost | \$ 132,612 |
| Interest | 72,140 |
| Changes in assumptions | (98,690) |
| Employer contributions | (90,633) |
| Net Change in Total OPEB Liability | <u>\$ 15,429</u> |
| Balance as of December 31, 2019 | <u>\$ 2,107,594</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB) (Continued)

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | Discount Rate | Total OPEB Liability |
|-------------|---------------|-------------------------|
| 1% Decrease | 2.71% | \$ 2,366,537 |
| Current | 3.71 | 2,107,594 |
| 1% Increase | 4.71 | 1,886,009 |

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

| | Health Care Trend Rate | Total OPEB Liability |
|-------------|---------------------------|-------------------------|
| 1% Decrease | 5.90% decreasing to 3.40% | \$ 1,840,242 |
| Current | 6.90% decreasing to 4.40% | 2,107,594 |
| 1% Increase | 7.90% decreasing to 5.40% | 2,434,073 |

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the County recognized OPEB expense of \$25,524. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 87,216 | \$ 85,722 |
| Employer contributions paid subsequent to the measurement date | 91,173 | - |
| Total | \$ 178,389 | \$ 85,722 |

The \$91,173 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending December 31 | Amount |
|----------------------------|----------|
| 2019 | \$ 2,578 |
| 2020 | 2,578 |
| 2021 | 2,578 |
| 2022 | 2,578 |
| 2023 | 2,578 |
| Thereafter | (11,396) |

6. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2019:

- The discount rate changed from 3.31 percent to 3.71 percent.
- The health care trend rates were changed to better anticipate short-term and long-term medical increases.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

F. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description

All full-time and certain part-time employees of Pine County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), the Public Employees Police and Fire Plan (the Police and Fire Plan), and the Public Employees Local Government Correctional Service Retirement Plan (the Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Pine County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing five percent for each year of service until fully vested after 20 years.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

Beginning January 1, 2019, Police and Fire Plan benefit recipients will receive a 1.00 percent post-retirement increase. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Beginning January 1, 2019, Correctional Plan benefit recipients will receive a post-retirement increase equal to 100 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 2.50 percent. If the Correctional Plan's funding status declines to 85 percent or below for two consecutive years or 80 percent for one year, the maximum will be lowered from 2.50 percent to 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits, but are not yet receiving them, are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

c. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2019. Police and Fire Plan members were required to contribute 11.30 percent of their annual covered salary in 2019. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2019.

In 2019, the County was required to contribute the following percentages of annual covered salary:

| | |
|---|-------|
| General Employees Plan – Coordinated Plan members | 7.50% |
| Police and Fire Plan | 16.95 |
| Correctional Plan | 8.75 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

c. Contributions (Continued)

The Police and Fire Plan member and employer contribution rates increased 0.50 percent and 0.75 percent, respectively, from 2018.

The County's contributions for the year ended December 31, 2019, to the pension plans were:

| | | |
|------------------------|----|---------|
| General Employees Plan | \$ | 822,567 |
| Police and Fire Plan | | 455,688 |
| Correctional Plan | | 184,756 |

The contributions are equal to the statutorily required contributions as set by state statute.

d. Pension Costs

General Employees Plan

At December 31, 2019, the County reported a liability of \$8,425,855 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportion was 0.1524 percent. It was 0.1479 percent measured as of June 30, 2018. The County recognized pension expense of \$1,199,137 for its proportionate share of the General Employees Plan's pension expense.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

The County also recognized \$19,608 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

| | | |
|--|----|-----------|
| The County's proportionate share of the net pension liability | \$ | 8,425,855 |
| State of Minnesota's proportionate share of the net pension liability associated with the County | | 261,822 |
| Total | \$ | 8,687,677 |

The County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 227,142 | \$ - |
| Changes in actuarial assumptions | - | 637,603 |
| Difference between projected and actual investment earnings | - | 826,222 |
| Changes in proportion | 391,471 | - |
| Contributions paid to PERA subsequent to the measurement date | 414,262 | - |
| Total | \$ 1,032,875 | \$ 1,463,825 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

The \$414,262 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2020 | \$ (242,446) |
| 2021 | (515,286) |
| 2022 | (101,059) |
| 2023 | 13,579 |

Police and Fire Plan

At December 31, 2019, the County reported a liability of \$2,608,272 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportion was 0.2450 percent. It was 0.2350 percent measured as of June 30, 2018. The County recognized pension expense of \$431,804 for its proportionate share of the Police and Fire Plan's pension expense.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

The County also recognized \$33,075 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded, or until the State Patrol Plan is 90 percent funded, whichever occurs later. In addition, the state will pay direct state aid of \$4.5 million on October 1, 2018, and October 1, 2019, and \$9 million by October 1 of each subsequent year until full funding is reached or July 1, 2048, whichever is earlier.

The County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 104,822 | \$ 362,978 |
| Changes in actuarial assumptions | 1,978,928 | 2,819,112 |
| Difference between projected and actual investment earnings | - | 332,729 |
| Changes in proportion | 275,436 | 65,598 |
| Contributions paid to PERA subsequent to the measurement date | 234,452 | - |
| Total | \$ 2,593,638 | \$ 3,580,417 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

The \$234,452 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2020 | \$ (99,202) |
| 2021 | (271,072) |
| 2022 | (913,922) |
| 2023 | 47,406 |
| 2024 | 15,559 |

Correctional Plan

At December 31, 2019, the County reported a liability of \$132,400 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportion was 0.9563 percent. It was 0.9915 percent measured as of June 30, 2018. The County recognized pension expense of \$268,614 for its proportionate share of the Correctional Plan's pension expense.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 5,043 | \$ 21,498 |
| Changes in actuarial assumptions | - | 1,209,646 |
| Difference between projected and actual investment earnings | - | 166,417 |
| Changes in proportion | 73,388 | 77,404 |
| Contributions paid to PERA subsequent to the measurement date | 94,602 | - |
| Total | \$ 173,033 | \$ 1,474,965 |

The \$94,602 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2020 | \$ (755,293) |
| 2021 | (598,539) |
| 2022 | (43,987) |
| 2023 | 1,285 |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2019, was \$1,899,555.

e. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|------------------------------|-----------------------|
| Inflation | 2.50 percent per year |
| Active member payroll growth | 3.25 percent per year |
| Investment rate of return | 7.50 percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study. Inflation and investment assumptions for all plans were reviewed in the experience study report for the General Employees Plan dated June 27, 2019.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic equity | 35.50% | 5.10% |
| International equity | 17.50 | 5.30 |
| Fixed income | 20.00 | 0.75 |
| Private markets | 25.00 | 5.90 |
| Cash equivalents | 2.00 | 0.00 |

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2019, which remained consistent with 2018. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net positions of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans (Continued)

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2019:

General Employees Plan

- The mortality projection scale was changed from MP-2017 to MP-2018.

Police and Fire Plan

- The mortality projection scale was changed from MP-2017 to MP-2018.

Correctional Plan

- The mortality projection scale was changed from MP-2017 to MP-2018.

h. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

| | <u>General Employees Plan</u> | | <u>Proportionate Share of the Police and Fire Plan</u> | | <u>Correctional Plan</u> | |
|-------------|-------------------------------|----------------------------------|--|----------------------------------|--------------------------|----------------------------------|
| | <u>Discount Rate</u> | <u>Net Pension Liability</u> | <u>Discount Rate</u> | <u>Net Pension Liability</u> | <u>Discount Rate</u> | <u>Net Pension Liability</u> |
| 1% Decrease | 6.50% | \$ 13,851,651 | 6.50% | \$ 5,701,199 | 6.50% | \$ 1,411,107 |
| Current | 7.50 | 8,425,855 | 7.50 | 2,608,272 | 7.50 | 132,400 |
| 1% Increase | 8.50 | 3,945,781 | 8.50 | 50,472 | 8.50 | (890,774) |

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

F. Pension Plans

1. Defined Benefit Pension Plans (Continued)

i. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Defined Contribution Plan

Five Board members of Pine County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Pine County during the year ended December 31, 2019, were:

| | Employee | Employer |
|-------------------------------|----------|----------|
| Contribution amount | \$ 7,798 | \$ 7,798 |
| Percentage of covered payroll | 5.00% | 5.00% |

**PINE COUNTY
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3. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

In May 2006, Pine County's Board of Commissioners approved a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

Under Pine County's plan, both unionized and non-unionized employees are allowed to contribute up to two percent of their annual salary into their HCSP account. Through a Memo of Understanding between Pine County and the Law Enforcement Labor Services (LELS) Deputies Division, those unionized employees are authorized to contribute up to one percent of their annual salary. Additionally, the LELS Deputies Division employees are allowed to transfer excess compensatory hours, wellness day hours, and personal day hours to their HCSP accounts. Non-unionized employees, according to policy, must transfer personal time off days in excess of the maximum allowed into their HCSP accounts.

B. Minnesota Service Cooperative VEBA Plan

In 2004, the Pine County Board of Commissioners approved a Voluntary Employee's Beneficiary Association (VEBA) plan for funding employee health benefits as authorized under Section 213(d) of the IRS code. The VEBA plan is a health reimbursement plan providing for individual employer-funded accounts that can be used to help pay eligible medical expenses incurred by participating employees. The plan is used in combination with a high-deductible health plan. Funding is provided through pre-tax contributions from Pine County based on employee health care premiums, accumulated severance, and other longevity-based benefits.

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Postemployment Health Care Plans

B. Minnesota Service Cooperative VEBA Plan (Continued)

The current maximum County contribution for active employees consists of the difference between the County's contribution to its employees' single or family health insurance premiums under its existing comprehensive major medical plan, less the cost of the single or family health insurance premium under the VEBA high-deductible plan.

Any balance remaining in an employee's account at year-end rolls over into the subsequent year.

Eligibility requirements include:

- being an active employee or retiree of a public entity;
- active employees must have a high-deductible health plan; and
- being a member of a bargaining unit that has approved the VEBA plan.

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of the MCIT Workers' Compensation, Property and Casualty, and Employee Benefits (for health insurance) Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2019 and 2020. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**PINE COUNTY
PINE CITY, MINNESOTA**

4. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Employee Benefits Division of the MCIT health plan is self-insured. Benefits under the plan are paid from assets of MCIT. Each participating county contributes the aggregate cost of coverage under the plan for the covered employees attributable to it. These amounts are held in trust by MCIT until they are needed to pay for benefits under the plan or to defray the reasonable costs of administering the plan. Stop-loss coverage of \$150,000 is available to protect the assets held in trust by MCIT from catastrophic loss due to unexpected plan costs.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**PINE COUNTY
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5. Summary of Significant Contingencies and Other Items (Continued)

B. Conduit Debt

Camp Heartland Project, Inc.

In 2000, the County issued \$1,175,000 of Industrial Development Revenue Notes to provide financial assistance to Camp Heartland Project, Inc., a nonprofit corporation, for refinancing the corporation's debt incurred for acquiring, constructing, and equipping facilities located in Willow River. The corporation is primarily engaged in providing programs for children infected with or affected by HIV/AIDS. The notes are secured by the property financed and are payable solely from revenues of the corporation. In 2016, Pine County refinanced the outstanding amount of the \$1,175,000 Industrial Development Revenue Note, Series 2000, in which the outstanding principal amount payable was \$703,405, by issuing a Revenue Note, Series 2016 One Heartland, Inc., Project, formerly known as Camp Heartland Project, Inc. Neither the County, the state, nor any political subdivision thereof, is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. The balance as of December 31, 2019 is \$469,487, and is in default.

Audubon Center of the Northwoods

In 2018, the County issued \$80,000 of Revenue Notes to provide financial assistance to the Audubon Center of the Northwoods, a nonprofit corporation, located in Sandstone, Minnesota. The proceeds were for constructing and equipping improvements to the facilities, including a new high ropes course, and paying certain costs of issuance in connection with the issuance of the notes. The notes are secured by the property financed and are payable solely from revenues of the corporation. Neither the County, the state, nor any political subdivision thereof, is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. The balance as of December 31, 2019, is \$77,192.

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5. Summary of Significant Contingencies and Other Items (Continued)

C. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission has five voting members, one Commissioner from each county. Each county has one voting member and, in the absence of the voting member, an alternate, who is also a County Commissioner, votes.

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence as long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an audit to determine assets and liabilities, and the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest.

During 2007, the Commission repaid the outstanding balance of its long-term bonds. Pine County was not required to contribute toward debt service. During 2019, the County made no further contribution to the Commission, but continues to collect delinquent taxes.

Complete financial information can be obtained from: East Central Solid Waste Commission, 1756 – 180th Avenue, Mora, Minnesota 55051.

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Snake River Watershed Management Board

The Snake River Watershed Management Board was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board.

The Board is funded through an annual budget, and participation in the administrative cost is in the following percentages:

| | |
|-------------------|-------|
| Aitkin County | 20.8% |
| Kanabec County | 49.5 |
| Mille Lacs County | 9.2 |
| Pine County | 20.5 |

Pine County provided \$9,968 to this organization during 2019. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from: Snake River Watershed Management Board, Kanabec County Courthouse, 18 North Vine Street, Mora, Minnesota 55051.

Pine County/Independent School District (ISD) 2580 Joint Powers Agreement

Pine County entered into a joint powers agreement with Independent School District (ISD) 2580 in April 1998, pursuant to Minn. Stat. § 471.59, to provide for the construction and operation of a joint use at-risk children, family, social, and human services facility. The County purchased the land and building and then deeded the building to ISD 2580 as required by the \$1,000,000 grant agreement between the State of Minnesota and ISD 2580. The joint powers agreement calls for separate installation and maintenance of phone systems, utility costs shared based on square footage, and repair/maintenance costs shared equally. The term of the agreement is for 20 years or until the state releases its interest in the facility and land. The agreement states that if the

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pine County/Independent School District (ISD) 2580 Joint Powers Agreement
(Continued)

County withdraws early, it is not entitled to reimbursement for any contributions made toward construction. If ISD 2580 withdraws and the facility is sold, ISD 2580 must pay the County an amount equal to the County's initial investment, less proceeds of the sale to which the County is entitled. Once the state releases its interest, ownership reverts to the County. The John Wright Building was released from the state's interest in 2019, which terminated the agreement between Pine County and ISD 2580. The building was sold on a five-year purchase agreement to the City of Sandstone for \$125,000.

ISD 2580 is the fiscal agent for this project, which was completed in 2000. Separate financial information is not available.

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region (the Region) was established in 2001, under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from: Central Minnesota Emergency Medical Services Region, Administration Center, 705 Courthouse Square, St. Cloud, Minnesota 56303-4701.

Workforce Investment/Workforce Center Systems Joint Powers Board

The Workforce Investment/Workforce Center Systems Joint Powers Board was established in March 2002, pursuant to Minn. Stat. ch. 268 and § 471.59, as a joint powers entity. Its purpose is to develop and approve the planning, coordination, and

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Workforce Investment/Workforce Center Systems Joint Powers Board (Continued)

administration of job training and retention programs for the hard-to-serve Temporary Assistance for Needy Families recipients and associated noncustodial parents under the Welfare to Work Program. It comprises Chisago, Isanti, Kanabec, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, and Wright Counties. Funding is to be provided through block grants from the U.S. Department of Labor. One County Commissioner from each participating county is appointed to the Joint Powers Board.

Rush Line Corridor Joint Powers Agreement

The Rush Line Corridor Joint Powers Agreement was established in March 1999, pursuant to Minn. Stat. ch. 398A and § 471.59, as a joint powers entity. The Rush Line Corridor is a transit way corridor that originates in St. Paul in Ramsey County and extends north from Ramsey County through Washington, Chisago, Pine, and Carlton Counties to Duluth in St. Louis County. The Rush Line Corridor consists of the cities, counties, and towns from St. Paul to Duluth and was created to preserve the corridor for future multi-modal transportation improvements including highway, rail transit, and multi-use paths.

As part of the agreement, a joint powers board called the Rush Line Corridor Task Force was created to make the decisions needed to carry out the terms of the joint powers agreement. This Task Force consists of one member and one alternate appointed from each party, with their membership terms beginning on January 15 and ending on January 14 of the next succeeding year, or until a successor is appointed.

The Task Force has the authority to adopt budgets; enter into transactions, contracts, and leases; incur debts, liabilities, and obligations; employ agents and employees; and enter into legal claims. The Task Force is also a separate entity from its members, and the members are not liable for the Task Force's actions.

Funding, if needed for administrative costs, is provided to the Task Force based on corridor county population for the most recent census year or state demographer data available. Pine County made no contributions in 2019.

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minneapolis-Duluth/Superior Passenger Rail Alliance Joint Powers Agreement

The Minneapolis-Duluth/Superior Passenger Rail Alliance (also known as the “Northern Lights Express”) Joint Powers Agreement was established in February 2008, pursuant to Minn. Stat. §§ 471.59, 398A.04 and 398A.06, as a joint powers entity. The Minneapolis-Duluth/Superior Passenger Rail Alliance corridor is a transit way corridor that is a critical line between the Twin Cities metropolitan area and northeast areas of Minnesota and further serving communities in the Corridor from Minneapolis, northeast to Duluth, Minnesota, and Superior, Wisconsin (“Twin Ports”). The Minneapolis-Duluth/Superior Passenger Rail Alliance was created to analyze the feasibility, environmental impact, rail characteristics, station locations, train scheduling, operations, and other necessary features for integrated transportation improvements along the corridor, including intercity passenger and freight rail and to analyze safety and related issues. The Joint Powers Agreement provides a mechanism whereby the Alliance can facilitate systematic planning and development for passenger rail transportation along the corridor, including communication with and coordination of Alliance activities as necessary with BNSF Railway Company (primary owner and operator of the corridor); other affected railroads; state agencies; counties; municipalities; the Federal Railroad Administration; other regulatory, planning, and funding agencies; tribal authorities; and other stakeholders for advancement of the Alliance’s purposes.

As part of the agreement, a joint powers board called the Minneapolis-Duluth/Superior Passenger Rail Alliance Board was created to make the decisions needed to carry out the terms of the joint powers agreement. This Board consists of one elected official selected by each party and alternate members, consisting of one individual selected by each party, with their membership terms beginning on January 1 and ending on January 1 of the next succeeding year, or until a successor is appointed by the applicable party.

The Board has the authority to adopt budgets; enter into transactions, contracts, and leases; incur debts, liabilities, and obligations; employ agents and employees; and enter into legal claims. The Board is also a separate entity from its members, and the members are not liable for the Board’s actions.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minneapolis-Duluth/Superior Passenger Rail Alliance Joint Powers Agreement
(Continued)

The parties shall contribute the funds necessary to carry out the purposes and powers of the Board, consistent with an annual budget and cost-sharing formula adopted by the Board and approved annually by each party's governing body. The St. Louis-Lake Regional Railroad Authority shall initially serve as the fiscal agent for the Board and shall provide contract management and the necessary legal services for said contract management until such time the Board otherwise designates a fiscal agent. During 2019, Pine County elected not to pay a contribution and decided not to be a voting member of the Joint Powers Board.

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Pine County made \$438 in contributions in 2019.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Drug and Violent Offender Task Force

The East Central Drug and Violent Offender Task Force was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the enforcement of controlled substance laws, deterrence of violent crimes, and investigation of other associated unlawful activity in the respective jurisdictions.

The joint powers are Chisago, Isanti, Kanabec, and Pine Counties. Control of the Task Force is vested in an Administrative Board composed of the sheriff of each of the members, or his or her designee, and one associate member from one of the participating counties' county attorney's office as appointed by the Board.

Pine County is the fiscal agent for the Task Force and accounts for it as an agency fund. Funding is provided by grants and matching contributions from participating members. Pine County made no contributions in 2019.

D. Jointly-Governed Organizations

Pine County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Pine County Children, Families, and Learning Services Collaborative

The Pine County Children, Families, and Learning Services Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Pine County has no operational or financial control over the Collaborative. The County is the fiscal agent for the Collaborative and accounts for it in an agency fund.

Minnesota Counties Computer Consortium

The Minnesota Counties Computer Consortium was formed in 1979 pursuant to Minn. Stat. § 471.59 and includes 24 counties. Control of the Consortium is vested in the Joint Data Processing Board, which is composed of one representative and one alternate appointed by each member county. Pine County's responsibility does not extend beyond making this appointment.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority (HRA) is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the HRA Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related party transactions comprise payment of \$3,450 by the County to the HRA Board members for per diem expenses in 2019.

F. Tax-Forfeited Land

The County manages approximately 40,511 acres of state-owned, tax-forfeited land with an estimated market value for 2019 of \$27,744,800. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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REQUIRED SUPPLEMENTARY INFORMATION

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 10,884,148 | \$ 10,884,148 | \$ 10,415,437 | \$ (468,711) |
| Special assessments | 2,604 | 17,549 | 17,549 | - |
| Licenses and permits | 118,200 | 118,200 | 132,362 | 14,162 |
| Intergovernmental | 3,807,024 | 3,827,218 | 4,246,890 | 419,672 |
| Charges for services | 1,951,682 | 1,941,682 | 1,974,027 | 32,345 |
| Fines and forfeits | 15,500 | 15,500 | 22,493 | 6,993 |
| Gifts and contributions | 102,000 | 129,000 | 169,657 | 40,657 |
| Investment earnings | 100,000 | 100,000 | 434,714 | 334,714 |
| Miscellaneous | 788,100 | 790,524 | 762,384 | (28,140) |
| Total Revenues | \$ 17,769,258 | \$ 17,823,821 | \$ 18,175,513 | \$ 351,692 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 265,566 | \$ 254,519 | \$ 260,293 | \$ (5,774) |
| Courts | 64,000 | 72,000 | 93,582 | (21,582) |
| Law Library | 22,450 | 22,450 | 31,188 | (8,738) |
| County auditor | 727,807 | 736,307 | 762,956 | (26,649) |
| County assessor | 564,608 | 553,801 | 540,674 | 13,127 |
| Elections | 19,300 | 54,300 | 60,052 | (5,752) |
| Data processing | 758,867 | 723,867 | 747,658 | (23,791) |
| Central services | 34,000 | 34,000 | 39,503 | (5,503) |
| Administrator | 455,530 | 447,530 | 444,109 | 3,421 |
| Attorney | 1,009,772 | 1,009,772 | 1,043,975 | (34,203) |
| Contracted legal services | 30,000 | 10,000 | 7,724 | 2,276 |
| Recorder | 387,511 | 408,318 | 448,162 | (39,844) |
| Planning and zoning | 239,806 | 254,751 | 269,728 | (14,977) |
| Buildings and plant | 793,092 | 793,092 | 818,620 | (25,528) |
| Veterans service officer | 124,493 | 171,493 | 179,210 | (7,717) |
| Victim services | 69,563 | 69,563 | 71,597 | (2,034) |
| Other general government | 394,350 | 477,091 | 481,830 | (4,739) |
| Total general government | \$ 5,960,715 | \$ 6,092,854 | \$ 6,300,861 | \$ (208,007) |

**PINE COUNTY
PINE CITY, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 5,081,018 | \$ 5,111,018 | \$ 5,449,908 | \$ (338,890) |
| Federal forfeitures | - | - | 2,966 | (2,966) |
| Sandstone range training center | - | - | 891 | (891) |
| Court security | 203,764 | 178,764 | 179,793 | (1,029) |
| Boat and water safety | 7,525 | 7,525 | 8,314 | (789) |
| Coroner | 62,000 | 62,000 | 61,500 | 500 |
| E-911 system | 106,641 | 106,641 | 78,384 | 28,257 |
| County jail | 4,151,892 | 4,121,892 | 4,069,034 | 52,858 |
| Sentencing to service | 79,937 | 79,937 | 79,205 | 732 |
| Probation and parole | 895,576 | 850,576 | 896,026 | (45,450) |
| ERC federal grant | - | - | 21,501 | (21,501) |
| Civil defense | 103,602 | 103,602 | 97,034 | 6,568 |
| Other public safety | 57,960 | 57,960 | 59,220 | (1,260) |
| Total public safety | \$ 10,749,915 | \$ 10,679,915 | \$ 11,003,776 | \$ (323,861) |
| Sanitation | | | | |
| Solid waste | \$ - | \$ - | \$ 278 | \$ (278) |
| Recycling | 423,360 | 413,360 | 413,635 | (275) |
| Total sanitation | \$ 423,360 | \$ 413,360 | \$ 413,913 | \$ (553) |
| Culture and recreation | | | | |
| Historical society | \$ 20,000 | \$ 20,000 | \$ 20,000 | \$ - |
| Regional library | 330,922 | 330,922 | 330,222 | 700 |
| Total culture and recreation | \$ 350,922 | \$ 350,922 | \$ 350,222 | \$ 700 |
| Conservation of natural resources | | | | |
| County extension | \$ 104,847 | \$ 107,271 | \$ 105,537 | \$ 1,734 |
| Soil and water conservation | 84,145 | 84,145 | 34,049 | 50,096 |
| Agricultural society/County fair | 10,000 | 10,000 | 10,000 | - |
| Aquatic invasive species | 125,218 | 125,218 | 105,779 | 19,439 |
| Other | 9,968 | 9,968 | 9,968 | - |
| Total conservation of natural resources | \$ 334,178 | \$ 336,602 | \$ 265,333 | \$ 71,269 |
| Economic development | | | | |
| Economic development | \$ - | \$ - | \$ 10,000 | \$ (10,000) |

**PINE COUNTY
PINE CITY, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures (Continued) | | | | |
| Debt service | | | | |
| Principal | \$ 89,523 | \$ 89,523 | \$ 78,851 | \$ 10,672 |
| Interest | 3,989 | 3,989 | 3,990 | (1) |
| Total debt service | \$ 93,512 | \$ 93,512 | \$ 82,841 | \$ 10,671 |
| Total Expenditures | \$ 17,912,602 | \$ 17,967,165 | \$ 18,426,946 | \$ (459,781) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (143,344) | \$ (143,344) | \$ (251,433) | \$ (108,089) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 90,000 | \$ 90,000 | \$ 546,169 | \$ 456,169 |
| Proceeds from loan | - | - | - | - |
| Total Other Financing Sources (Uses) | \$ 90,000 | \$ 90,000 | \$ 546,169 | \$ 456,169 |
| Net Change in Fund Balance | \$ (53,344) | \$ (53,344) | \$ 294,736 | \$ 348,080 |
| Fund Balance – January 1 | 5,435,875 | 5,435,875 | 5,435,875 | - |
| Fund Balance – December 31 | \$ 5,382,531 | \$ 5,382,531 | \$ 5,730,611 | \$ 348,080 |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 3,329,821 | \$ 3,329,821 | \$ 3,187,172 | \$ (142,649) |
| Intergovernmental | 9,364,687 | 7,864,687 | 8,414,679 | 549,992 |
| Charges for services | 167,500 | 167,500 | 232,782 | 65,282 |
| Miscellaneous | 37,550 | 37,550 | 19,257 | (18,293) |
| Total Revenues | \$ 12,899,558 | \$ 11,399,558 | \$ 11,853,890 | \$ 454,332 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 366,313 | \$ 366,313 | \$ 379,702 | \$ (13,389) |
| Engineering/construction | 8,370,554 | 6,870,554 | 5,152,956 | 1,717,598 |
| Maintenance/equipment | 2,273,640 | 2,273,640 | 2,081,789 | 191,851 |
| Equipment repair and shop | 1,843,511 | 1,843,511 | 1,406,592 | 436,919 |
| Unallocated – highways and streets | 70,540 | 70,540 | 80,089 | (9,549) |
| Total highways and streets | \$ 12,924,558 | \$ 11,424,558 | \$ 9,101,128 | \$ 2,323,430 |
| Intergovernmental | | | | |
| Highways and streets | 510,292 | 510,292 | 510,292 | - |
| Total Expenditures | \$ 13,434,850 | \$ 11,934,850 | \$ 9,611,420 | \$ 2,323,430 |
| Excess of Revenues Over (Under) Expenditures | \$ (535,292) | \$ (535,292) | \$ 2,242,470 | \$ 2,777,762 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 25,000 | \$ 25,000 | \$ - | \$ (25,000) |
| Proceeds from sale of capital assets | - | - | 13,247 | 13,247 |
| Total Other Financing Sources (Uses) | \$ 25,000 | \$ 25,000 | \$ 13,247 | \$ (11,753) |
| Net Change in Fund Balance | \$ (510,292) | \$ (510,292) | \$ 2,255,717 | \$ 2,766,009 |
| Fund Balance – January 1 | 145,568 | 145,568 | 145,568 | - |
| Increase (decrease) in inventories | - | - | (47,097) | (47,097) |
| Fund Balance – December 31 | \$ (364,724) | \$ (364,724) | \$ 2,354,188 | \$ 2,718,912 |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 3,854,162 | \$ 3,854,162 | \$ 3,802,328 | \$ (51,834) |
| Licenses and permits | 10,750 | 10,750 | 12,650 | 1,900 |
| Intergovernmental | 6,648,682 | 6,563,682 | 6,609,659 | 45,977 |
| Charges for services | 699,431 | 699,431 | 862,885 | 163,454 |
| Gifts and contributions | 3,200 | 3,200 | 4,449 | 1,249 |
| Investment earnings | 400 | 400 | 1,367 | 967 |
| Miscellaneous | 224,900 | 214,900 | 363,258 | 148,358 |
| Total Revenues | \$ 11,441,525 | \$ 11,346,525 | \$ 11,656,596 | \$ 310,071 |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 3,285,549 | \$ 3,285,549 | \$ 3,186,666 | \$ 98,883 |
| Social services | 6,393,405 | 6,393,405 | 6,830,871 | (437,466) |
| Total human services | \$ 9,678,954 | \$ 9,678,954 | \$ 10,017,537 | \$ (338,583) |
| Health | | | | |
| Health | \$ 1,772,131 | \$ 1,677,131 | \$ 1,651,042 | \$ 26,089 |
| Planning and implementation | 218,842 | 218,842 | 206,753 | 12,089 |
| Total health | \$ 1,990,973 | \$ 1,895,973 | \$ 1,857,795 | \$ 38,178 |
| Total Expenditures | \$ 11,669,927 | \$ 11,574,927 | \$ 11,875,332 | \$ (300,405) |
| Net Change in Fund Balance | \$ (228,402) | \$ (228,402) | \$ (218,736) | \$ 9,666 |
| Fund Balance – January 1 | 1,949,181 | 1,949,181 | 1,949,181 | - |
| Fund Balance – December 31 | \$ 1,720,779 | \$ 1,720,779 | \$ 1,730,445 | \$ 9,666 |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 39,800 | \$ 39,800 | \$ 46,432 | \$ 6,632 |
| Miscellaneous | 853,792 | 1,353,792 | 1,554,145 | 200,353 |
| Total Revenues | \$ 893,592 | \$ 1,393,592 | \$ 1,600,577 | \$ 206,985 |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Land use | \$ 784,756 | \$ 1,234,756 | \$ 935,034 | \$ 299,722 |
| Other conservation | 19,700 | 69,700 | 70,616 | (916) |
| Total Expenditures | \$ 804,456 | \$ 1,304,456 | \$ 1,005,650 | \$ 298,806 |
| Excess of Revenues Over (Under) Expenditures | \$ 89,136 | \$ 89,136 | \$ 594,927 | \$ 505,791 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (90,000) | (90,000) | (546,169) | (456,169) |
| Net Change in Fund Balance | \$ (864) | \$ (864) | \$ 48,758 | \$ 49,622 |
| Fund Balance – January 1 | 1,116,517 | 1,116,517 | 1,116,517 | - |
| Fund Balance – December 31 | \$ 1,115,653 | \$ 1,115,653 | \$ 1,165,275 | \$ 49,622 |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2019**

| | <u>2019</u> | <u>2018</u> |
|--|--------------------------------|--------------------------------|
| Total OPEB Liability | | |
| Service cost | \$ 132,612 | \$ 115,403 |
| Interest | 72,140 | 74,194 |
| Changes of assumption or other inputs | (98,690) | 118,308 |
| Benefit payments | <u>(90,633)</u> | <u>(95,376)</u> |
| Net change in total OPEB liability | \$ 15,429 | \$ 212,529 |
| Total OPEB Liability – Beginning, as restated | <u>2,092,165</u> | <u>1,879,636</u> |
| Total OPEB Liability – Ending | <u><u>2,107,594</u></u> | <u><u>2,092,165</u></u> |
| | | |
| Covered-employee payroll | \$ 15,092,758 | \$ 14,842,185 |
| Total OPEB liability (asset) as a percentage of covered-employee payroll | 13.96% | 14.10% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with Pine County (b) | Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b) | Covered Payroll (c) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|---|--|---|---|------------------------------------|---|---|
| 2019 | 0.1524 % | \$ 8,425,855 | \$ 261,822 | \$ 8,687,677 | \$ 10,783,529 | 78.14 % | 80.23 % |
| 2018 | 0.1479 | 8,204,885 | 269,044 | 8,473,929 | 9,940,474 | 82.54 | 79.50 |
| 2017 | 0.1440 | 9,167,329 | 115,248 | 9,282,577 | 9,254,922 | 99.05 | 75.90 |
| 2016 | 0.1400 | 11,391,664 | 148,746 | 11,540,410 | 8,656,402 | 131.60 | 68.91 |
| 2015 | 0.1380 | 7,136,329 | N/A | 7,136,329 | 8,095,828 | 88.15 | 78.20 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|------------------------|---|---|---|------------------------------------|--|
| 2019 | \$ 822,567 | \$ 822,567 | \$ - | \$ 10,967,515 | 7.50 % |
| 2018 | 785,931 | 785,931 | - | 10,479,062 | 7.50 |
| 2017 | 711,725 | 711,725 | - | 9,489,637 | 7.50 |
| 2016 | 684,966 | 684,966 | - | 9,134,718 | 7.50 |
| 2015 | 613,543 | 613,543 | - | 8,179,660 | 7.50 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2019**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|---|--|------------------------------------|---|---|
| 2019 | 0.2450 % | \$ 2,608,272 | \$ 2,583,506 | 100.96 % | 89.26 % |
| 2018 | 0.2350 | 2,504,858 | 2,476,926 | 101.13 | 88.84 |
| 2017 | 0.2210 | 2,983,763 | 2,271,421 | 131.36 | 85.43 |
| 2016 | 0.2240 | 8,989,510 | 2,151,548 | 417.82 | 63.88 |
| 2015 | 0.2080 | 2,363,367 | 1,906,286 | 123.98 | 86.61 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2019**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|------------------------|---|---|---|------------------------------------|--|
| 2019 | \$ 455,688 | \$ 455,688 | \$ - | \$ 2,688,427 | 16.95 % |
| 2018 | 409,362 | 409,362 | - | 2,526,921 | 16.20 |
| 2017 | 384,748 | 384,748 | - | 2,374,989 | 16.20 |
| 2016 | 353,971 | 353,971 | - | 2,185,007 | 16.20 |
| 2015 | 331,325 | 331,325 | - | 2,045,215 | 16.20 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2019**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|---|--|------------------------------------|---|---|
| 2019 | 0.9563 % | \$ 132,400 | \$ 2,039,858 | 6.49 % | 98.17 % |
| 2018 | 0.9915 | 163,072 | 2,021,912 | 8.07 | 97.64 |
| 2017 | 0.9400 | 2,679,009 | 1,892,287 | 141.58 | 67.89 |
| 2016 | 1.0200 | 3,726,203 | 1,926,761 | 193.39 | 58.16 |
| 2015 | 0.9800 | 151,508 | 1,753,715 | 8.64 | 96.95 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2019**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|------------------------|---|---|---|------------------------------------|--|
| 2019 | \$ 184,756 | \$ 184,756 | \$ - | \$ 2,111,492 | 8.75 % |
| 2018 | 178,579 | 178,579 | - | 2,040,902 | 8.75 |
| 2017 | 171,842 | 171,842 | - | 1,963,907 | 8.75 |
| 2016 | 162,295 | 162,295 | - | 1,855,532 | 8.75 |
| 2015 | 163,274 | 163,274 | - | 1,865,985 | 8.75 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

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**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund, the Clean Water Partnership Program Special Revenue Fund, the CIP Project Bond Capital Projects Fund, the Governmental Buildings Capital Projects Fund, and the Technology Equipment Capital Projects Fund. All appropriations lapse at fiscal year-end.

Based on a process established by the Board of County Commissioners, all departments of the County submit requests for appropriations to the County Administrator each year. A draft of the proposed budget is presented to a Budget Committee. The Budget Committee consists of all five County Commissioners, the County Administrator, and the County Auditor-Treasurer. The Budget Committee reviews and amends the departmental requests in order to develop a proposed budget and preliminary tax levy. Before September 30, a final draft of the proposed budget and preliminary tax levy is presented to the County Board for review. A final budget and tax levy is adopted by the Board and certified to the Auditor-Treasurer no later than the statutory deadline.

The appropriate budget is prepared by fund, function, and department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control—the level at which expenditures may not legally exceed appropriations—is the fund level, except for the General Fund, which is at the department level.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Excess of Expenditures Over Appropriations

The following major funds had expenditures in excess of budget for the year ended December 31, 2019:

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|-----------------------------------|---------------------|---------------------|---------------|
| General Fund | | | |
| Current | | | |
| General government | | | |
| Commissioners | \$ 260,293 | \$ 254,519 | \$ 5,774 |
| Courts | 93,582 | 72,000 | 21,582 |
| Law library | 31,188 | 22,450 | 8,738 |
| County auditor | 762,956 | 736,307 | 26,649 |
| Elections | 60,052 | 54,300 | 5,752 |
| Data processing | 747,658 | 723,867 | 23,791 |
| Central services | 39,503 | 34,000 | 5,503 |
| Data processing | 1,043,975 | 1,009,772 | 34,203 |
| Contracted legal services | 448,162 | 408,318 | 39,844 |
| Recorder | 269,728 | 254,751 | 14,977 |
| Planning and zoning | 818,620 | 793,092 | 25,528 |
| Buildings and plant | 179,210 | 171,493 | 7,717 |
| Veterans service officer | 71,597 | 69,563 | 2,034 |
| Other general government | 481,830 | 477,091 | 4,739 |
| Public safety | | | |
| Sheriff | 5,449,908 | 5,111,018 | 338,890 |
| Federal forfeitures | 2,966 | - | 2,966 |
| Sandstone range training center | 891 | - | 891 |
| Court security | 179,793 | 178,764 | 1,029 |
| Boat and water safety | 8,314 | 7,525 | 789 |
| Probation and parole | 896,026 | 850,576 | 45,450 |
| ERC federal grant | 21,501 | - | 21,501 |
| Other public safety | 59,220 | 57,960 | 1,260 |
| Sanitation | | | |
| Solid waste | 278 | - | 278 |
| Recycling | 413,635 | 413,360 | 275 |
| Economic development | | | |
| Economic development | 10,000 | - | 10,000 |
| Debt service | | | |
| Interest | 3,990 | 3,989 | 1 |
| Health and Human Services Special | | | |
| Revenue Fund | 11,875,332 | 11,574,927 | 300,405 |

3. Other Postemployment Benefits Funded Status

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

**PINE COUNTY
PINE CITY, MINNESOTA**

4. Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes in actuarial assumptions occurred in 2019:

- The discount rate changed from 3.31 percent to 3.71 percent.
- The health care trend rates were changed to better anticipate short-term and long-term medical increases.

The following changes in plan provisions occurred in 2018:

- The discount rate was changed from 3.50 percent to 3.31 percent based on updated 20-year municipal bond rates.
- The actuarial cost method changed from using the Projected Unit Credit cost method to the Entry Age Normal level percent to pay cost method.
- Health care trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's excise tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Withdrawal, retirement, and mortality rates were updated from the rates used in the July 1, 2015, Public Employees Retirement Association (PERA) General Employees Retirement Plan, Police and Fire Plan, and Correctional Plan valuations to the rates used in the July 1, 2017, valuations.
- A salary scale assumption was added to reflect the cost method change. Rates are from the July 1, 2017, PERA General Employees Retirement Plan, Police and Fire Plan, and Correctional Plan valuations.
- The percent of retirees electing spouse coverage changed from 40 percent to 30 percent to reflect recent plan experience.
- The percent of future non-Medicare eligible retirees other than Teamster deputies electing each medical plan changed to reflect recent plan experience and new plan offerings.

**PINE COUNTY
PINE CITY, MINNESOTA**

4. Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

- The percent of future non-Medicare eligible Teamster deputy retirees electing each medical plan changed to reflect recent plan experience and new plan offerings.

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of PERA for the fiscal year June 30:

General Employees Retirement Plan

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2018 (Continued)

- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2016 (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2018 (Continued)

- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA load has been changed to 33 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Local Government Correctional Service Retirement Plan

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Local Government Correctional Service Retirement Plan (Continued)

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Post-retirement benefit increases were changed from 2.50 percent per year with a provision to reduce to 1.00 percent if the funding status declines to a certain level, to 100 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 2.50 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years, or 80 percent for one year, the maximum increase will be lowered to 1.50 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Local Government Correctional Service Retirement Plan (Continued)

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA load has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL OBLIGATION JAIL BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,171,065 | \$ 1,171,065 | \$ 1,155,984 | \$ (15,081) |
| Intergovernmental | - | - | 19,654 | 19,654 |
| Total Revenues | \$ 1,171,065 | \$ 1,171,065 | \$ 1,175,638 | \$ 4,573 |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 695,000 | \$ 695,000 | \$ 695,000 | \$ - |
| Interest | 404,200 | 404,200 | 404,200 | - |
| Administrative charges | 3,000 | 3,000 | 1,707 | 1,293 |
| Total Expenditures | \$ 1,102,200 | \$ 1,102,200 | \$ 1,100,907 | \$ 1,293 |
| Net Change in Fund Balance | \$ 68,865 | \$ 68,865 | \$ 74,731 | \$ 5,866 |
| Fund Balance – January 1 | 1,300,774 | 1,300,774 | 1,300,774 | - |
| Fund Balance – December 31 | \$ 1,369,639 | \$ 1,369,639 | \$ 1,375,505 | \$ 5,866 |

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**PINE COUNTY
PINE CITY, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund accounts for funds used for public improvements and services for the ditch system.

The Clean Water Partnership Program Fund accounts for the septic loan program through the Minnesota Pollution Control Agency.

DEBT SERVICE FUND

The General Obligation Courthouse Bond Fund accounts for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs.

CAPITAL PROJECTS FUNDS

The Governmental Buildings Fund accounts for future capital acquisitions and construction.

The Technology Equipment Fund accounts for future equipment acquisitions.

**PINE COUNTY
PINE CITY, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | Special Revenue | |
|---|------------------------|--|
| | Ditch | Clean Water Partnership Program |
| <u>Assets</u> | | |
| Cash and investments | \$ 30,886 | \$ 117,914 |
| Undistributed cash in agency funds | - | - |
| Taxes receivable | | |
| Delinquent | - | - |
| Special assessments receivable | | |
| Noncurrent | - | 640,044 |
| Loans receivable | - | - |
| | \$ 30,886 | \$ 757,958 |
| | \$ 30,886 | \$ 757,958 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ - | \$ 24,850 |
| | \$ - | \$ 24,850 |
| Deferred Inflows of Resources | | |
| Unavailable revenue | \$ - | \$ 640,044 |
| | \$ - | \$ 640,044 |
| Fund Balances | | |
| Restricted | | |
| Debt service | \$ - | \$ - |
| Septic loans | - | 93,064 |
| Ditches | 30,886 | - |
| Assigned | | |
| Capital projects | - | - |
| | \$ 30,886 | \$ 93,064 |
| Total Fund Balances | \$ 30,886 | \$ 93,064 |
| | \$ 30,886 | \$ 93,064 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 30,886 | \$ 757,958 |

EXHIBIT B-2

| <u>Debt Service</u> | <u>Capital Projects</u> | | |
|---|-----------------------------------|---------------------------------|----------------------------|
| <u>General Obligation Courthouse Bond</u> | <u>Governmental Buildings</u> | <u>Technology Equipment</u> | <u>Total</u> |
| \$ 1,174,842 | \$ 119,586 | \$ 137,056 | \$ 1,580,284 |
| 17,342 | 1,256 | 1,636 | 20,234 |
| 49,291 | 3,251 | 4,196 | 56,738 |
| - | - | - | 640,044 |
| - | 90,000 | - | 90,000 |
| <u>\$ 1,241,475</u> | <u>\$ 214,093</u> | <u>\$ 142,888</u> | <u>\$ 2,387,300</u> |
| | | | |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,850</u> |
| | | | |
| <u>\$ 37,103</u> | <u>\$ 92,345</u> | <u>\$ 2,987</u> | <u>\$ 772,479</u> |
| | | | |
| \$ 1,204,372 | \$ - | \$ - | \$ 1,204,372 |
| - | - | - | 93,064 |
| - | - | - | 30,886 |
| - | 121,748 | 139,901 | 261,649 |
| <u>\$ 1,204,372</u> | <u>\$ 121,748</u> | <u>\$ 139,901</u> | <u>\$ 1,589,971</u> |
| | | | |
| <u>\$ 1,241,475</u> | <u>\$ 214,093</u> | <u>\$ 142,888</u> | <u>\$ 2,387,300</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | Special Revenue | |
|---|------------------|---------------------------------------|
| | Ditch | Clean Water Partnership Program |
| Revenues | | |
| Taxes | \$ - | \$ - |
| Special assessments | - | 61,556 |
| Intergovernmental | - | - |
| Charges for services | 6,968 | 2,112 |
| Miscellaneous | - | - |
| Total Revenues | \$ 6,968 | \$ 63,668 |
| Expenditures | | |
| Current | | |
| Conservation of natural resources | \$ - | \$ 269,512 |
| Capital outlay | | |
| General government | - | - |
| Debt service | | |
| Principal | - | - |
| Interest | - | - |
| Administrative charges | - | - |
| Total Expenditures | \$ - | \$ 269,512 |
| Excess of Revenues Over (Under) Expenditures | \$ 6,968 | \$ (205,844) |
| Other Financing Sources (Uses) | | |
| Proceeds from MPCA loan | - | 311,578 |
| Net Change in Fund Balances | \$ 6,968 | \$ 105,734 |
| Fund Balances – January 1 | 23,918 | (12,670) |
| Fund Balances – December 31 | \$ 30,886 | \$ 93,064 |

EXHIBIT B-3

| <u>Debt Service</u> | <u>Capital Projects</u> | | |
|---|-----------------------------------|---------------------------------|---------------------|
| <u>General Obligation Courthouse Bond</u> | <u>Governmental Buildings</u> | <u>Technology Equipment</u> | <u>Total</u> |
| \$ 996,120 | \$ 73,898 | \$ 98,479 | \$ 1,168,497 |
| - | - | - | 61,556 |
| 16,941 | 1,262 | 1,673 | 19,876 |
| - | - | - | 9,080 |
| - | 35,360 | - | 35,360 |
| <u>\$ 1,013,061</u> | <u>\$ 110,520</u> | <u>\$ 100,152</u> | <u>\$ 1,294,369</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ 269,512 |
| - | 80,171 | 42,374 | 122,545 |
| 635,000 | - | - | 635,000 |
| 309,100 | - | - | 309,100 |
| 1,679 | - | - | 1,679 |
| <u>\$ 945,779</u> | <u>\$ 80,171</u> | <u>\$ 42,374</u> | <u>\$ 1,337,836</u> |
| | | | |
| \$ 67,282 | \$ 30,349 | \$ 57,778 | \$ (43,467) |
| | | | |
| - | - | - | 311,578 |
| <u>\$ 67,282</u> | <u>\$ 30,349</u> | <u>\$ 57,778</u> | <u>\$ 268,111</u> |
| | | | |
| <u>1,137,090</u> | <u>91,399</u> | <u>82,123</u> | <u>1,321,860</u> |
| | | | |
| <u>\$ 1,204,372</u> | <u>\$ 121,748</u> | <u>\$ 139,901</u> | <u>\$ 1,589,971</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
GENERAL OBLIGATION COURTHOUSE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,009,470 | \$ 1,009,470 | \$ 996,120 | \$ (13,350) |
| Intergovernmental | - | - | 16,941 | 16,941 |
| Total Revenues | \$ 1,009,470 | \$ 1,009,470 | \$ 1,013,061 | \$ 3,591 |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 635,000 | \$ 635,000 | \$ 635,000 | \$ - |
| Interest | 309,100 | 309,100 | 309,100 | - |
| Administrative charges | 3,000 | 3,000 | 1,679 | 1,321 |
| Total Expenditures | \$ 947,100 | \$ 947,100 | \$ 945,779 | \$ 1,321 |
| Net Change in Fund Balance | \$ 62,370 | \$ 62,370 | \$ 67,282 | \$ 4,912 |
| Fund Balance – January 1 | 1,137,090 | 1,137,090 | 1,137,090 | - |
| Fund Balance – December 31 | \$ 1,199,460 | \$ 1,199,460 | \$ 1,204,372 | \$ 4,912 |

FIDUCIARY FUNDS

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**PINE COUNTY
PINE CITY, MINNESOTA**

AGENCY FUNDS

The Pine County Children, Families, and Learning Services Collaborative Fund accounts for the collection and payment of funds of the Children, Family, and Learning Services Collaborative.

The State Revenue Fund accounts for the collection and distribution of funds for the State of Minnesota.

The Taxes and Penalties Fund accounts for the collection of taxes and penalties and their payment to the various taxing districts.

The East Central Drug and Violent Offenders Task Force Fund accounts for the collection and distribution of grant funds, agency-deposited funds, and pending/settled forfeiture funds.

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|------------------------------|-------------------|-------------------|--------------------------------|
| <u>PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 111,434 | \$ 245,516 | \$ 203,916 | \$ 153,034 |
| Due from other governments | 33,282 | 67,426 | 66,564 | 34,144 |
| Total Assets | \$ 144,716 | \$ 312,942 | \$ 270,480 | \$ 187,178 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 144,716 | \$ 312,942 | \$ 270,480 | \$ 187,178 |
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 24,206 | \$ 731,707 | \$ 730,820 | \$ 25,093 |
| Accounts receivable | 522 | 943 | 1,043 | 422 |
| Total Assets | \$ 24,728 | \$ 732,650 | \$ 731,863 | \$ 25,515 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 24,728 | \$ 732,650 | \$ 731,863 | \$ 25,515 |

**PINE COUNTY
PINE CITY, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|-----------------------------|-----------------------------|--------------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 569,625 | \$ 41,750,723 | \$ 41,879,388 | \$ 440,960 |
| Due from other governments | - | 24,649 | - | 24,649 |
| Total Assets | <u>\$ 569,625</u> | <u>\$ 41,775,372</u> | <u>\$ 41,879,388</u> | <u>\$ 465,609</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 569,625</u> | <u>\$ 41,775,372</u> | <u>\$ 41,879,388</u> | <u>\$ 465,609</u> |
| <u>EAST CENTRAL DRUG AND VIOLENT OFFENDERS TASK FORCE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 207,993</u> | <u>\$ 520,800</u> | <u>\$ 631,052</u> | <u>\$ 97,741</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 207,993</u> | <u>\$ 520,800</u> | <u>\$ 631,052</u> | <u>\$ 97,741</u> |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 913,258 | \$ 43,248,746 | \$ 43,445,176 | \$ 716,828 |
| Accounts receivable | 522 | 943 | 1,043 | 422 |
| Due from other governments | 33,282 | 92,075 | 66,564 | 58,793 |
| Total Assets | <u>\$ 947,062</u> | <u>\$ 43,341,764</u> | <u>\$ 43,512,783</u> | <u>\$ 776,043</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 947,062</u> | <u>\$ 43,341,764</u> | <u>\$ 43,512,783</u> | <u>\$ 776,043</u> |

OTHER SCHEDULES

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019**

Appropriations and Shared Revenue

State

| | | |
|---------------------------------|----|-----------|
| Highway users tax | \$ | 8,317,659 |
| Road gas tax | | 7,364 |
| Market value credit | | 313,877 |
| PERA rate reimbursement | | 36,545 |
| Disaster credit | | 1,604 |
| Disparity reduction aid | | 1,057 |
| County program aid | | 1,870,799 |
| Local performance aid | | 4,129 |
| Police aid | | 302,265 |
| Out-of-home placement aid | | 158,784 |
| Casino aid/tribal tax agreement | | 85,762 |
| Riparian protection aid | | 48,087 |
| SCORE | | 83,422 |
| E-911 | | 106,641 |
| Aquatic invasive species aid | | 123,930 |

Total appropriations and shared revenue **\$ 11,461,925**

Reimbursement for Services

State

| | | |
|--|----|-----------|
| Minnesota Department of Human Services | \$ | 1,095,770 |
|--|----|-----------|

Payments

Local

| | | |
|---------------------------|----|---------|
| Local contributions | \$ | 122,138 |
| Payments in lieu of taxes | | 669,913 |

Total payments **\$ 792,051**

Grants

State

| | | |
|--|----|-----------|
| Minnesota Department of/Board of | | |
| Corrections | \$ | 213,793 |
| Public Safety | | 32,448 |
| Health | | 374,792 |
| Natural Resources | | 25,602 |
| Human Services | | 1,485,455 |
| Veterans Affairs | | 10,000 |
| Water and Soil Resources | | 114,903 |
| Peace Officer Standards and Training Board | | 33,802 |
| Pollution Control Agency | | 42,143 |

Total state **\$ 2,332,938**

**PINE COUNTY
PINE CITY, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019**

Grants (Continued)

Federal

| | |
|--|-----------------------------|
| Department of Agriculture | \$ 444,307 |
| Justice | 66,716 |
| Education | 648 |
| Health and Human Services | 3,101,910 |
| Homeland Security | <u>66,667</u> |
| Total federal | <u>\$ 3,680,248</u> |
| Total state and federal grants | <u>\$ 6,013,186</u> |
| Total Intergovernmental Revenue | <u>\$ 19,362,932</u> |

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|--|------------------------------------|---------------------------------------|---------------------|
| U.S. Department of Agriculture | | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 192MN004W1003 | \$ 184,739 |
| Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 192MN101S2514 | <u>259,568</u> |
| Total U.S. Department of Agriculture | | | \$ 444,307 |
| U.S. Department of Justice | | | |
| Passed Through Minnesota Department of Public Safety Missing Children's Assistance | 16.543 | 131430 | \$ 1,500 |
| Crime Victim Assistance | 16.575 | A-CVSP-2018-PCAO-00029 | 43,650 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | A-JAG-2020-PCAO-058 | <u>21,566</u> |
| Total U.S. Department of Justice | | | \$ 66,716 |
| U.S. Department of Transportation | | | |
| Passed Through Minnesota Department of Public Safety Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | F-OFFICR20-2020-PINECO-3945 | \$ 12,342 |
| Highway Safety Cluster National Priority Safety Programs | 20.616 | F-OFFICR20-2020-PINECO-3945 | <u>4,728</u> |
| Total U.S. Department of Transportation | | | \$ 17,070 |
| U.S. Department of Education | | | |
| Passed Through Minnesota Department of Health Special Education – Grants for Infants and Families | 84.181 | H181A150029 | \$ 648 |
| U.S. Department of Health and Human Services | | | |
| Passed Through Minnesota Department of Health Public Health Emergency Preparedness | 93.069 | NU90TP921911-0100 | \$ 16,629 |
| Public Health Emergency Preparedness (Total Public Health Emergency Preparedness CFDA 93.069 \$34,566) | 93.069 | NU90TP922026 | 17,937 |
| TANF Cluster Temporary Assistance for Needy Families | 93.558 | 1901MNTANF | 46,441 |
| (Total Temporary Assistance for Needy Families 93.558 \$415,003) | | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | B04MC320621/BO4MC32551 | 42,152 |

**PINE COUNTY
PINE CITY, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|------------------------------------|---------------------------------------|---------------------|
| U.S. Department of Health and Human Services (Continued) | | | |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families TANF Cluster | 93.556 | G-1801MNFSS | 12,780 |
| Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$415,003) | 93.558 | 1901MNTANF | 359,201 |
| Child Support Enforcement | 93.563 | 1901MNCSES | 120,891 |
| Child Support Enforcement (Total Child Support Enforcement CFDA 93.563 \$771,401) | 93.563 | 1901MNCEST | 650,510 |
| Refugee and Entrant Assistance – State Administered Programs | 93.566 | 1901MNRCA | 265 |
| Community-Based Child Abuse Prevention Grants CCDF Cluster | 93.590 | G-1801MNBCAP | 14,066 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | G1901MNCCDF | 9,592 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | G-1801MNCWSS | 10,070 |
| Foster Care – Title IV-E | 93.658 | 1901MNFOST | 263,265 |
| Social Services Block Grant | 93.667 | G-1901MNSOSR | 209,348 |
| John H. Chafee Foster Care Program for Successful Transition to Adulthood | 93.674 | G-1901MNCILP | 1,182 |
| Children's Health Insurance Program Medicaid Cluster | 93.767 | 1905MN5021 | 200 |
| Medical Assistance Program | 93.778 | 1905MN5ADM | 1,117,902 |
| Medical Assistance Program (Total Medical Assistance Program CFDA 93.778 \$1,133,303) | 93.778 | 1905MN5MAP | 15,401 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 2B08TIO10027-18 | <u>202,603</u> |
| Total U.S. Department of Health and Human Services | | | \$ 3,110,435 |
| U.S. Department of Homeland Security | | | |
| Passed Through Minnesota Department of Natural Resources | | | |
| Boating Safety Financial Assistance | 97.012 | R29G40CGFFY17 | \$ 3,003 |
| Passed Through Minnesota Department of Public Safety | | | |
| Disaster Grants – Public Assistance (Presidentially Declared Disasters) | 97.036 | 115086 | 47,604 |
| Emergency Management Performance Grants | 97.042 | EMPG-PINECO-060 | <u>20,623</u> |
| Total U.S. Department of Homeland Security | | | \$ 71,230 |
| Total Federal Awards | | | \$ 3,710,406 |

Pine County did not pass any federal awards through to subrecipients during the year ended December 31, 2019.

Totals by Cluster

| | |
|---|------------|
| Total expenditures for SNAP Cluster | \$ 259,568 |
| Total expenditures for Highway Safety Cluster | 4,728 |
| Total expenditures for TANF Cluster | 405,642 |
| Total expenditures for CCDF Cluster | 9,592 |
| Total expenditures for Medicaid Cluster | 1,133,303 |

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Pine County. The County's reporting entity is defined in Note 1 to the financial statements.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pine County under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Pine County, it is not intended to and does not present the financial position or changes in net position of Pine County.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

Pine County has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|--|---------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 3,680,248 |
| Grants unavailable in 2018, recognized as revenue in 2019 | |
| Emergency Management Performance Grants (CFDA No. 97.042) | (20,672) |
| Grants unavailable in 2019, recognized as revenue in 2020 | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated (CFDA No. 20.608) | 12,342 |
| National Priority Safety Programs (CFDA No. 20.616) | 4,728 |
| Promoting Safe and Stable Families (CFDA No. 93.556) | 3,019 |
| Community-Based Child Abuse Prevention Grants (CFDA No. 93.590) | 3,516 |
| Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645) | 1,990 |
| Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036) | 4,612 |
| Emergency Management Performance Grants (CFDA No. 97.042) | <u>20,623</u> |
| Expenditures per Schedule of Expenditures of Federal Awards | <u>\$ 3,710,406</u> |

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
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1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of County Commissioners
Pine County
Pine City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pine County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pine County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that Pine County failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 3, 2020



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Pine County
Pine City, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Pine County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2019. Pine County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pine County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pine County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, Pine County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Pine County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 3, 2020

**PINE COUNTY
PINE CITY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

| | |
|----------------------------|-----------------|
| Child Support Enforcement | CFDA No. 93.563 |
| Medicaid Cluster | |
| Medical Assistance Program | CFDA No. 93.778 |

The threshold for distinguishing between Types A and B programs was \$750,000.

Pine County qualified as a low-risk auditee? **No**

**PINE COUNTY
PINE CITY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. PREVIOUSLY REPORTED ITEMS RESOLVED

2016-001 Eligibility (CFDA No. 93.778)

2018-001 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and
Reporting (CFDA No. 93.778)

Pine County Health & Human Services

___ South Pine Government Center (SPGC), 315 Main St S, Ste 200, Pine City MN 55063 (HHS)
320-591-1570/800-450-7463; FAX 320-591-1601/1602

___ South Pine Government Center (SPGC), 315 Main St S, Ste 1, Pine City MN 55063 (PH/WIC)
320-591-1596/800-450-7463, FAX 320-591-1600

___ North Pine Government Center (NPGC), 1602 Hwy 23 N, Sandstone MN 55072
320-216-4100/800-450-7263, FAX 320-216-4152

REPRESENTATION OF PINE COUNTY PINE CITY, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2016-001

Finding Title: Eligibility

Program: Medical Assistance Program (CFDA #93.778)

Summary of Condition: The MN Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In a sample of 40 case files reviewed for eligibility, not all documentation verified or updated to support participant eligibility.

- For one case file, the application in the file was not date stamped, and the means of citizenship verification did not agree between MAXIS and the file.
- For seven case files, the asset information in MAXIS was unsupported or did not match the case file documentation.

Summary of Corrective Action Previously Reported: A temporary financial worker was hired effective July 17, 2019 to ensure a workload that will allow staff to have more capacity to thoroughly determine eligibility. Supervisor Michelle Morgan will review eligibility guidelines at the August, 2019 staff meeting. Beginning in the third quarter of 2019, Supervisor Morgan will also audit two files per quarter to ensure that workers are properly determining eligibility and verifying assets. In 2020, financial staff will begin to conduct peer reviews (two reviews per quarter) to ensure compliance with eligibility requirements.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes No

In October of 2019, the temporary eligibility worker position became a permanent position within the department, adding to the overall FTEs in the unit. Additionally, a work flow system was purchased in late 2019 to assist the unit with a shared and consistent documentation system, which has positively impacted the unit's functionality across the different financial program areas. During COVID, there was a suspension of the internal audits. As we move forward in the year, the plan is for these to be reinstated.

Finding Number: 2018-001

Finding Title: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting

Program: Medical Assistance Program (CFDA #93.778)

Summary of Condition: Included on the Income Maintenance DHS-2550 reports was the County's ten percent share of nursing home costs for citizens under the age of 65 who are in a nursing home, which are ineligible costs.

Summary of Corrective Action Previously Reported: DHS 2550 reports were revised and resubmitted for 2018 quarters 2-4 and 2019 quarter 1. Pine County's 2019 quarter 3 reimbursement will be reduced by the overpayment amount. Staff were not aware these expenses were not reimbursable and will no longer request reimbursement for them.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X